

SOVIET UNION
Republics want more
say on foreign policy
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EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

Austria	100.00	100.00	100.00	100.00
Belgium	100.00	100.00	100.00	100.00
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Germany	100.00	100.00	100.00	100.00
Greece	100.00	100.00	100.00	100.00
Ireland	100.00	100.00	100.00	100.00
Italy	100.00	100.00	100.00	100.00
Japan	100.00	100.00	100.00	100.00
Netherlands	100.00	100.00	100.00	100.00
Portugal	100.00	100.00	100.00	100.00
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Monday September 16 1991

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World News Business Summary

Sweden's ruling party faces defeat in elections

Sweden's ruling Social Democrats, who have dominated the country's politics for almost 60 years, were set for what appeared to be a clear defeat in the general election, according to an early exit poll. Figures suggested that the four non-Socialist parties seeking to form a coalition government will fall short of an overall majority. Page 18

CIA hearings start

Robert Gates, US president George Bush's choice as CIA director, faces tough questioning on the Iran-Contra affair and the BCCI scandal at confirmation hearings before the Senate Intelligence Committee. Page 18

Call for deal on hostages

Iran's foreign minister, Ali Akbar Velayati, called for all sides to co-operate with UN secretary-general Javier Perez de Cuellar to bring the hostage affair to a speedy end. Earlier, a new Iranian cleric said the next step in the hostage crisis could be the release of a British captive, possibly within 24 hours. Page 6

Ukrainians reject Union

At least 50,000 people from all 25 regions of the Ukraine converged outside Kiev's cathedral to insist on independence for the Soviet Union's second most powerful republic. Page 2

US base referendum

President Corason Aquino of the Philippines said she had lost hope that the country's Senate would approve a new lease for a US naval base, and she would ask the people in a referendum to allow the US to keep the base. Page 4

Bush 'not anti-Semitic'

Israeli defence minister, Moshe Arens, repudiated the charge by another Israeli cabinet minister that US president George Bush was an anti-Semite, saying this was not the view of most Israelis. Page 1

Hungarian strike ends

Chinese dissident Chen Ziming, sentenced to 13 years in prison for his role in the 1989 pro-democracy movement, has given up a hunger strike after his friend and fellow dissident was moved to a prison hospital for medical treatment. Page 1

Suriname elects president

Suriname, the South American republic, has ended almost four months of uncertainty over its leadership as Ronald Venetiaan, a former schoolteacher, begins a five-year term today as president. Page 4

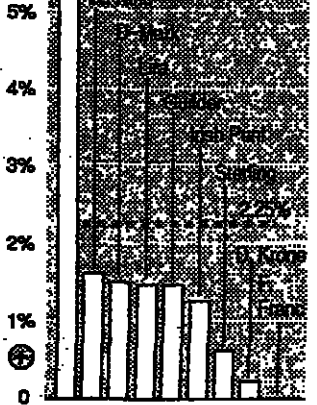
GEC may acquire Ferranti missile unit

FERRANTI International of the UK is close to agreeing the transfer of its missile activities to Britain's GEC to settle a financial claim. The transfer would resolve a row over the £270m (\$450m) GEC paid last year for Ferranti Defence Systems. Page 19

EUROPEAN Monetary System

The D-Mark moved up from fifth to third strongest in the ERM grid, prompting a tightening of Belgian monetary policy. Sterling remained third weakest, but looked generally weak on adverse interest rate trends. The Spanish peseta was steady at the top of the system after the Bank of Spain left its credit policy unchanged at a money market tender on Friday. German winds of change. Page 19; Currencies, Page 29

EMS September 13, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

AUSTRIAN savings banks

Oesterreichische Länderbank and Zentralbank have finally agreed a merger to create the country's biggest financial institution with combined assets of \$40bn. Page 19

CREDIT LYONNAIS

French bank, raised \$250m of capital through an issue of variable rate notes - the first such issue for nearly a year. Page 19

UNCTAD, the UN Conference on Trade and Development

forecast global output would grow only 0.7 per cent this year rising to 2.3 per cent in 1992. Unctad warns on deregulation. Page 6

S.G. WARSBURG explained

publicly why it did not tell US officials about a \$3.5bn false Treasury auction bid made in the name of its investment management arm by Salomon Brothers. Page 19

TAURIS, much delayed settlement system for the London Stock Exchange

is unlikely to be ready for its revised target date of May 1992. Page 18

Nigeria hit by \$200m fraud at BCCI arm

By William Keeling in London

THE Bank of Credit and Commerce International defrauded Nigeria of up to \$200m between 1985 and 1987, clients and officials of the bank have said.

Executives in BCCI's London office co-ordinated a variety of frauds with the connivance of colleagues in BCCI-Nigeria working for the affiliate under a management contract.

A London-based commodity trader who traded with Nigeria and who held his account with BCCI was paid \$5m to maintain his silence after incurring losses as a result of fraud, according to a BCCI official.

The commodity trader, who has asked not to be named, confirmed that a payment was made to him by BCCI.

BCCI officials say the profit from the frauds, which were particularly complicated, was divided between the bank and the employees involved. One senior executive, according to a BCCI official, boasted: "All our star performers are millionaires. No other bank can claim so many millionaires under one roof."

BCCI officials estimate that the bank made an illegal profit of \$150m-\$200m between 1985 and 1987 but they add that the frauds were probably in operation from 1982.

The Central Bank of Nigeria said the central authorities

were not aware of the issue but would be looking into its books for evidence of the fraud.

According to the commodity trader, whose company was registered in Jersey before it went into liquidation in 1988, this is how one fraud worked: BCCI would issue a letter of credit for, say, the export of Nigeria of vehicle spare parts.

The Central Bank of Nigeria could take up to six months to process letters of credit and make available foreign exchange for the payments of the parts. BCCI would ask both the Nigeria importer and the foreign exporter, without the knowledge of the other, for funds to cover interest payments on the money set aside until the foreign exchange allocation was received.

Until recently the Nigerian government, which has a virtual monopoly over foreign exchange as a result of the country's lucrative oil earnings, authorised all foreign exchange transactions.

BCCI would then approach the central bank with a request to release to BCCI in London foreign exchange to cover the letter of credit and the interest payment charged to the importer. The central bank would not be told that the fraud was in operation.

Continued on Page 18

Gates faces grilling, Page 18

Croats fear air raid on Zagreb

By Laura Silber in Belgrade and Reuter

AIR-RAID SIRENS sounded in Zagreb yesterday amid fears of an attack on the Croatian capital. Earlier federal fighter jets had attacked an important port on Croatia's Adriatic coast.

People scrambled for cover as the air raid sounded and a jet swooped low over the city. A television announcer said: "There is an air-raid alert in Zagreb. Everyone should go to shelters."

The Croatian army had earlier gone on the offensive against the Yugoslav federal forces, blockading several military barracks in the republic and capturing General Milan Akseentijevic, the deputy commander of the Fifth Army District which covers most of Croatia and Slovenia.

Croatia's counter-attack appeared to be an attempt to reverse a series of crushing setbacks suffered during the past week.

Mr Hans van den Broek, the foreign minister of the Netherlands, which holds the EC presidency, warned that "recent measures taken by Croatia will escalate the conflict and endanger the peace conference in The Hague".

At the same time, Italy and Germany appealed to the federal army to withdraw from Croatia to avoid "an all-out war". In a joint statement they said the current number of observers should be increased to 1,000 or even more if necessary.

Mr Zvonimir Separovic, the foreign minister of Croatia, yesterday threatened to withdraw Croatia from the EC peace conference by Thursday if the fighting worsened.

He said the EC could not



A Croat national guardsman races for cover across a street in Osijek yesterday

build a "new Yugoslavia which is dead". He also criticised the EC for comparing Croatian defence measures with the aggression by Serbia and the federal army.

Zagreb radio said 15 army barracks surrendered after Croat forces blocked the delivery of food and supplies to military installations. Electricity, water and telephone lines were cut off at the weekend.

They said Croatia had seized thousands of tonnes of arms, more than 400 military person-

nel had surrendered and a handful of other army buildings had been taken elsewhere in Croatia.

"No barracks have been taken by force, no lives have been lost," Croatian defence minister Luka Bebic told a news conference.

The decision to cut off water and electricity to military installations came after Croatia last week stopped oil deliveries to Serbia in a move aimed at depriving the Republic of Serbia of vital fuel supplies.

Continued on Page 18

The offensive by the poorly armed Croatian forces led to an immediate retaliation by the Serb-dominated federal army.

Aircraft bombed parts of Ploce, an industrial port, and the main rail-link between inland Croatia and its southern Adriatic coast.

Belgrade radio said the army assault followed an attack by Croatian forces, including the seizure of 5,000 pieces of weaponry from the naval base in Ploce.

Mr Lee has been branded by

Voters favour liberals in Hong Kong elections

By Angus Foster in Hong Kong

LIBERAL Hong Kong politicians calling for more democracy and a tougher stance towards China were heading for a sizeable victory in yesterday's first direct elections to the colony's Legislative Council.

But a lower than expected turnout is likely to be used by both Britain and China as evidence that Hong Kong people remain ambivalent about a faster pace of political reform in the British colony.

The elections mark Hong

Kong's first step towards partial democracy.

The United Democrats of Hong Kong, the fledgling political party led by Mr Martin Lee, and independent liberals campaigning on a similar platform, were on target to win at least 12 of the 18 seats being contested, according to opinion polls and exit polls conducted yesterday.

The rest of the 60 seats in the council have been filled by indirect election by trade and business associations or by

government appointment.

The elections were well organised, there was no violence and votes appeared to be cast on the basis of candidates' track record and willingness to speak up for Hong Kong.

The liberals will form Hong Kong's first opposition political force. They will use their grassroots credentials to call for wider social issues to be addressed and to criticise the Hong Kong and Chinese governments. The council, which in the past has been little more

than a rubber stamp, is expected to become more vocal and more influential.

Only one of four pro-China candidates, who have the backing of Chinese organisations in Hong Kong, stood a chance of victory, according to the opinion polls.

A total of 750,500 cast their ballots. Although this was higher than any previous district election, the figure represented only 35.5 per cent of the colony's 1.5m registered electors. The low turnout was

blamed on apathy and confusion about what the elections will mean. Executive power will remain in the hands of the colonial government and a close group of advisers.

Because only a minority of the seats in the council were directly elected, the voters were in effect electing an opposition rather than a government.

Mr Michael Suen, secretary for constitutional affairs, hinted at the expected Chinese response when he said that the

turnout "may be interpreted in some quarters that Hong Kong is not interested in democracy".

Mr Lee, who seemed certain of victory in the East Hong Kong Island constituency, said the turnout was "very respectable". He said 20 per cent of registered voters were no longer able to vote since they had either emigrated or moved house.

Continued on Page 18

Bull, Siemens, Olivetti plan Europe-wide network

By Alan Cane in Oplo, France

GROUPE BULL of France, Siemens of Germany and Olivetti of Italy have started work on designs for a multi-million dollar computer network to span Europe. The intention is to provide both an information technology infrastructure for the continent and a boost for Europe's ailing computer companies.

A memorandum of understanding between the three companies was signed on August 31, and work on the detailed design has already started. The companies are anxious to persuade the European Commission, which has yet to approve or agree funding for the project, that they can work together effectively.

They are also anxious to head off attempts by other computer companies, based abroad but with a large European presence, to secure the project. These include International Business Machines, the world's largest computer manufacturer, and Electronic Data

Systems, a subsidiary of General Motors.

The agreement to collaborate on designs for a multi-million dollar computer network to span Europe, although they already work together in a series of research ventures.

Mr Francis Lorentz, chief executive of Groupe Bull, told a meeting of processing professionals from the US, Europe and Japan that collaboration on the network was an example of the way European computer manufacturers would have to learn to co-operate as well as compete if they were to return to financial health.

He also hinted that within a few weeks Bull would announce collaboration with another large information technology company. However, he ruled out any suggestion of a merger or acquisition. There is speculation that the company will be from the US as 5 per cent of Groupe Bull's stock is already held by NEC of Japan.

The plan for a European

computer network - essentially a system of large computers connected by telecommunications links to provide a common information highway - was originally put forward by the European Commission some years ago, but there has been little progress since then.

European manufacturers have argued that they need large computer projects both to improve their financial health and to gain experience to help them compete with large US suppliers, which regularly secure major US government contracts.

Nearly all the large European computer companies are in financial trouble because of falling sales, increased competition and the high cost of research and development.

Olivetti is marginally profitable, while Groupe Bull does not expect to return to profit until next year. Siemens Nixdorf information systems has made a greater loss than expected.

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THE MONDAY INTERVIEW

Since taking over as chancellor of the exchequer nine months ago, Norman Lamont has been unwavering in his determination to bring down the UK's rate of inflation. "I think we will win the election, whenever it is," he says. Page 34


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Japan in the UK: The similarities have begun to outweigh the differences. (Friday's survey)



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INTERNATIONAL NEWS

Lithuania warned on Polish minority

By Christopher Bobinski in Warsaw and Gillian Tett in Tallinn

RELATIONS between Lithuania and Poland could revert to the inter-war period of mistrust and hostility if Lithuania does not recognise the ethnic rights of the Polish minority, Mr Krzysztof Skubiszewski, the Polish foreign minister, said at the weekend.

Mr Skubiszewski, who yesterday postponed a scheduled visit to Vilnius, the Lithuanian capital, said he would travel once "mutual relations including treatment of national minorities has been drafted".

The Polish government wants Poles in Lithuania to be granted citizenship as of right and not on the basis of a loyalty declaration Vilnius is planning to demand.

The rebuff by the Polish government was the first public criticism by another country of Lithuania's poor human rights record since its independence last month.

Meanwhile, in the neighbouring republic of Estonia, Mr James Baker, the US secretary of state, announced an economic aid package of \$14m (\$8.2m) for the Baltics. This is the first concrete western aid package to have been offered to the Baltic states.

Mr Baker, who held talks in Tallinn, the Estonian capital, with Mr Arnold Ruutel, the Estonian president, and Mr Edgar Savisaar, the prime minister, had agreed to review the Start, CFE and INF weapons agreements in light of the Baltic states' new status.

Mr Skubiszewski made his remarks after a Polish delegation from Warsaw last week failed to secure a firm declaration in a Lithuanian-Polish draft document that minorities either side of the border would not be forced to assimilate.

Under pressure from hard-line nationalists, the Lithuanian parliament disbanded after September 4 Polish-dominated local councils in rural districts near Vilnius and Šiauliai. The Lithuanian authorities had accused the leaderships of the councils of supporting the coup against President Mikhail Gorbachev.

Desperate Croatia shifts tactics

Judy Dempsey on the Yugoslav republic's military predicament

CROATIA'S attempts at the weekend to cut off supplies to federal army barracks stationed in the republic signals the beginning of a new strategy by the beleaguered Croatian government.

But western diplomats and Croat officials believe these tactics are too late to prevent the republic from being further carved up. EC monitors added yesterday that this strategy could undermine the EC-sponsored peace conference.

At the same time, Serb paramilitary units, backed by the federal army, are moving closer towards achieving their goal: control of the Adriatic which forms the western flank of Croatia. The federal air force yesterday bombed the industrial port of Ploče.

These forces are also attempting to win control over Vukovar, an isolated, Croat-inhabited city in the east of the republic.

If these two goals are achieved, a swathe of territory stretching across from the eastern, central and south-western parts of Croatia will form the basis of a Greater Serbia.

"It [the federal army] is trying to crush our independence," a former adviser to Mr Franjo Tudjman, the president of Croatia, said yesterday.

As Serbia pushes forward, Croat officials believe the federal army is fulfilling a plan drawn up as early as spring last year.

In early 1990, Slovenia and Croatia were preparing for their first free democratic elections for over 45 years. Those elections were held against a background of calls by Croats and Slovenes for more independence from the federation.

Moves towards independence galvanised the communist federal army and administration, whose existence depended on a federal Yugoslavia.

The first step in preventing Slovenia and Croatia from asserting their independence was made on April 17 1990, when the federal army secretly ordered the transfer of all weapons held by the Territorial Defence Units (TDUs) to the local federal army barracks.

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A Yugoslav federal army soldier helps a wounded comrade after heavy fighting with Croatian forces in the east of the republic yesterday

When the order was issued to disarm the Croatian TDUs, the Zagreb government was in no position to resist. More than 200,000 light weapons were handed into federal army barracks. Thus Croatia, when it declared independence on June 25, could not defend itself.

Moreover, the federal army did not disarm Serbs in Krajina, a region south-west of Croatia which declared autonomy from the republic earlier

this year. The federal army also shipped weapons from Serbia across the river Danube to Serbs in eastern Slavonia.

Western diplomats in Belgrade agree that Croatia cannot defend itself against the Serb-dominated federal army and Serb paramilitary units.

They said that even if the army and Serbia carve a greater Serbia out of Croatia, this is unlikely to halt their territorial ambitions. Already,

the central republic of Bosnia-Herzegovina, which also complied with the order to hand in weapons, is vulnerable.

"The only way to stop this aggression is for the EC to send many, many more monitors, not only to Croatia, but to Bosnia-Herzegovina," said Mr Ruzmir Mahmutcehajic, deputy prime minister of Bosnia. "We will need to defend ourselves, otherwise we will face a terrible bloodbath," he added.

Top decision-making body due to consider Silayev's resignation request

Soviets to confront economic realities

By Leyla Boulton in Moscow

THE top decision-making body in what is left of the Soviet Union is expected today to grapple with tough decisions on who will manage the faltering economy and how to salvage some kind of economic union.

The State Council, bringing together President Mikhail Gorbachev and republic leaders, is due to consider a resignation request from Mr Ivan Silayev, the Russian prime minister, who wants to give up the chairmanship of the emergency committee which is running the Soviet economy.

Mr Gorbachev has nominated his associate, Mr Arkady Volynsky, to replace Mr Silayev as committee chief, while republican leaders, fearing

Russia is proving too assertive, may have their own ideas on who should take the job.

But many, including Mr Volynsky, who is said to be a reluctant candidate, fear that without a Russian Federation official at the helm the committee could lose any power it has. This could mean the council may convince Mr Silayev to stay or appoint another official from the republic, which has become the main power in the land.

Also on the agenda will be the three blueprints for an economic union, presented by Mr Grigory Yavlinsky, the radical economist who is the committee member responsible for economic reform, Prof Stanislav Shatalin, and Mr Yevgeny

Saburov, Russian economics minister.

Continuing debate about strategy suggests that practical problems will continue to be neglected. On Friday Mr Vladimir Raevsky, the Soviet first deputy finance minister, told the committee that the union budget deficit could come to Rb144bn 248m - or almost six times a planned target of Rb27bn. If credits granted by the USSR State Bank were included, he said, the deficit could exceed Rb200bn.

Mr Raevsky in part blamed the refusal of the Baltic republics, Georgia and Ukraine to contribute to the central budget, as well as reduced contributions by others. But he was

sharply rebuked by Mr Silayev, who told him to find ways of cutting expenditure.

Union budget revenues had been set at Rb250.1bn for 1991, with expenditure at Rb276.8bn.

But there is no doubt the republics themselves also have some belt-tightening to do, even if few politicians want to raise unpopular issues of this kind, let alone hammer out an austerity programme.

Mr Sergei Alexashenko, a Soviet economist who took part in drawing up Prof Shatalin's 500-day plan last year, estimates the combined deficit of republic budgets - which are separate from the Union budget - could total Rb120bn-Rb125bn this year.

Ukrainians insist on early independence

By Chrystia Freeland in Kiev

AT least 50,000 people from all 25 regions of the Ukraine converged outside Kiev's central cathedral yesterday to insist on immediate and complete independence for the Soviet Union's second most powerful republic.

The mood of participants in Kiev's largest demonstration this year was summed up by a placard which declared: "Nine minus One. Ukraine says no to the all-Union Treaty."

This was a reference to the agreement by Soviet leader Mikhail Gorbachev and republican leaders, signed shortly after the coup failed, to work in a loose confederation.

The meeting ended with a list of demands. Chief among them was the proposal that the Ukrainian government press

for immediate international recognition, rather than wait for the result of the December 1 republican referendum to ratify the Ukrainian parliament's August declaration of independence.

Another was that all nuclear weapons in the Ukraine be dismantled under international supervision. Mr Boris Yeltsin, the Russian president, is expecting the Ukraine to hand over all its mobile nuclear missiles to Russia.

These demands signal a radicalisation of Rukh, the pro-independence mass movement which organised the meeting and increased its power in the parliament last week.

Rukh now seems prepared to oppose any form of Soviet political union.

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Shareholders of FIDELITY FUNDS, a Société d'Investissement à Capital Variable organised under the laws of the Grand Duchy of Luxembourg ("the Fund"), will be held at the registered office of the Fund at 33, Boulevard Prince Henri, L-1724 Luxembourg, on Thursday, 3rd October 1991 at noon, specifically, but without limitation, for the following purposes:

1. Presentation of the Report of the Board of Directors.
2. Presentation of the Report of the Auditors.
3. Approval of the balance sheet and income statement for the financial year ended 30th April 1991.
4. Discharge of the Board of Directors and the Auditors.
5. Election of eight (8) Directors, specifically the re-election of the following eight (8) present Directors: Messrs. Edward C. Johnson 3d, Yasuaki Akamatsu, Barry R.J. Bennett, Jean Herliuss, Geoffrey J. Mansfield, Glen R. Moreno, Graham F. Nuter and David J. Saul.
6. Election of the Auditors, specifically the election of Coopers & Lybrand S.C., Luxembourg.
7. Authorisation of the Board of Directors to declare further dividends in respect of financial year 1991 if necessary to enable the Fund to qualify for "distributor status" under United Kingdom and Irish tax law.
8. Consideration of such other business as may properly come before the meeting.

No quorum is required for the holding of the meeting and resolutions will be passed by simple majority of the votes cast.

Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares by US persons or of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may attend and vote at the meeting or may appoint a proxy to attend and vote. Such proxy need not be a shareholder of the Fund.

In order to be able to participate at the meeting, holders of bearer shares must deposit their bearer share certificates with Bankers Trust Luxembourg S.A., P.O. Box 807, 14 Boulevard F.D. Roosevelt, Luxembourg.

To be valid, proxies must reach the registered office of the Fund on the 2nd October 1991 at 5 p.m. (Luxembourg time) at the latest.

Dated: September 12th, 1991
By Order of the Board of Directors

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of Shareholders of FIDELITY FUNDS, a Société d'Investissement à Capital Variable organised under the laws of the Grand Duchy of Luxembourg ("the Fund"), will be held at the registered office of the Fund at 33, Boulevard Prince Henri, L-1724 Luxembourg, on Thursday, 3rd October 1991 at 12.05 p.m. (or as soon thereafter as the Annual General Meeting of the Fund convened for that day shall have been concluded or adjourned) to consider and, if thought fit, pass a resolution for the following purpose:

To amend the definition of U.S. person in Article 8 by the addition after "the term 'U.S. person' means" of the words: "the following definition or such definition in substitution thereof as may from time to time be adopted by the Board of Directors".

A quorum at the meeting is holders of shares present in person or by proxy representing at least 50 per cent of the shares in issue. The resolution requires a majority in favour of at least two-thirds of the votes cast. If a quorum is not present, the meeting will be adjourned and at the adjourned meeting, holders present in person or by proxy, whatever their number and the number of shares held by them, will constitute a quorum.

Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares by U.S. persons or of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may attend and vote at the meeting or may appoint a proxy to attend and vote. Such proxy need not be a shareholder of the Fund.

In order to be able to participate at the meeting, holders of bearer shares must deposit their bearer share certificates with Bankers Trust Luxembourg S.A., P.O. Box 807, 14 Boulevard F.D. Roosevelt, Luxembourg.

To be valid, proxies must reach the registered office of the Fund on the 2nd October 1991 at 5 p.m. (Luxembourg time) at the latest.

Dated: September 12th, 1991
By Order of the Board of Directors

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R.C. Luxembourg B.20.083
Messrs. Shareholders are hereby convened to attend a GENERAL MEETING which will be held on September 25th, 1991, at 11.00 a.m., at the registered office, with the following agenda:
1. To declare a further dividend for the 1990 year.
The shareholders are advised that no quorum for the items of the agenda is required and that the decisions will be taken at the majority of the shares present or represented at the meeting. Each share is entitled to one vote. A shareholder may act at any meeting by proxy.
Bearer shares must be deposited five days before the meeting with:
CCF Luxembourg S.A.
8 Avenue Marie-Thérèse
L-1732 Luxembourg
By order of the Board of Directors

INTERNATIONAL NEWS

Joint ministerial meetings may be sought by EC presidency

Dutch plan to speed single-market legislation

By Andrew Hill in Amsterdam

JOINT meetings between internal market ministers and agriculture and finance ministers may be proposed by the Dutch presidency of the European Community to increase the pace of legislation essential for a barrier-free, single European market.

Speaking after a weekend's informal meeting of internal market ministers in Amsterdam, Mr Piet Dankert, the Dutch foreign affairs minister, said: "We are trying to use the internal market council a little bit as an engine to push the

others at the necessary speed to meet the deadline of the end of 1992."

Internal market ministers also agreed to ask national officials to develop a single computer information system linking national customs, police, and tax authorities after 1992.

Mr Martin Bangemann, the internal market commissioner, stressed that such a system would aim to avoid imposing additional administrative burdens on EC companies, and would maintain a high level of data protection for individuals.

Most of the 69 outstanding single market measures are the responsibility of finance and agriculture ministers, but have remained low on their agendas, beneath larger and more sensitive issues such as monetary union and farm reform.

If the delays persist, the internal market ministers and the European Commission believe the efficiency of the single market may be hampered.

Internal market ministers themselves still face problems with priority issues such as the

establishment of an EC trade mark office. Characteristically for the EC, this is stalled on the twin issues of its location and its working language.

Further company legislation - such as the European company statute and the fifth and tenth company law directives - could also be held up until next year.

On frontier controls, Britain and the Irish Republic still have difficulties in agreeing to any removal of controls on animal diseases such as rabies. Mr John Redwood, the UK's

junior trade minister, said after the meeting: "Everybody wants to remove as many controls on borders as possible, but each country has a list of difficult issues that may still warrant some border checks."

Mr Redwood has also proposed that internal market ministers should continue to meet regularly after 1992 to discuss possible amendment or improvement of single market legislation.

Martin Bangemann (right): promised data protection



Negotiators more optimistic over Uruguay Round

By Ian Davidson in Paris

CHIEF negotiators from the leading industrialised countries say they are now more confident of a successful conclusion to the Uruguay Round of trade liberalising talks.

But the weekend review by the so-called Quadrilateral Group, made up of the US, the EC, Japan and Canada, produced no breakthrough in the negotiations under the General Agreement on Tariffs and Trade (GATT). And the US delegation made clear that it does not now expect the Uruguay Round to be completed by the year-end deadline set by the Group of Seven industrialised countries in July.

After their two-day meeting, in Angers in western France, Mrs Carla Hills, US trade representative, Mr Frans Andriessen, of the European Commission, Mr Eiichi Nakao of Japan and Mr Michael Wilson of Canada all agreed they were now more hopeful than at the start of the year.

But Mrs Hills said progress in the GATT talks would depend on reform of the EC's Common Agricultural Policy (CAP), and she did not expect this to start until next month. Thereafter, she believed, conclusion of the Uruguay Round would need a further four to six months,

which would take the negotiations well into 1992. Nevertheless, Mrs Hills' remarks were free from the combative tone which has sometimes marked her comments on EC policies.

After their meeting the four negotiators agreed that events in eastern and central Europe and the Soviet Union made a successful conclusion of the negotiations even more necessary than before.

But Mr Andriessen admitted that the emergence of new states from within the Soviet Union was creating problems for the world trading system.

Mr Andriessen, who came to the quadrilateral meeting straight from a fact-finding mission to the Soviet Union, said it was too soon to take any decisions on how much aid was required or to whom it should be provided, or whether the Soviet Union or its component republics should become full members of GATT.

● A Japanese-EC car accord places no formal limit on how many vehicles Japanese companies can build in the Community, Mr Andriessen said on Saturday. Nor does the pact curb EC imports of Japanese cars built in the US, Reuters reports from Angers.

Falling steel demand raises restructuring problems

Germany's strong private-sector industry must change before Europe can, writes Charles Leadbeater

ON a clear day from the top of the mighty Schwelgern blast furnace at Duisburg, you can see half the German steel industry blast furnaces stretched out like sentinels along the Rhine.

The blackened, towering structures of Thyssen's Duisburg complex is the heart of a century-old alliance between the German steel industry and the manufacturing industries it serves. On one 12km-square site, Thyssen makes as much steel as British Steel produces from three plants. About half Thyssen's domestic customers are within 100km of the plant.

Yet, to executives at other European steel companies, the strength in depth of the German steel industry is one of the chief obstacles to the Europe-wide restructuring needed to give the industry a more stable future.

In France, Italy and the UK the industry has been rationalised largely by the state, with huge helpings of subsidy. Public ownership brought private steel producers together to create dominant national producers - Usinor Sacilor in France, British Steel, and Ilva in Italy.

In Germany, where the private market has prevailed, mergers and acquisitions have made less headway. The industry is still dominated by Thy-

ssen and Hoesch, Krupp and Mannesmann.

There has been great change in the German industry. Senior executives at Thyssen recall joining the industry in the 1960s, when there were more than 30 German steel producers. Employment in steel fell from 344,000 in 1974 to about 170,000 this year.

But, as a senior British Steel executive says: "Germany is the heart of the European industry. It will be very difficult to get change in Europe without change in Germany."

There is still scope for rationalisation within national industries: AHV and Ensidesa, the Spanish steel groups, are discussing a merger and, in Italy, Ilva is pursuing joint ventures with private steel producers such as Falck.

However, most steel executives believe the industry will only gain stability if there are fewer producers, with greater financial balance, built on a wider European base.

Will the current downturn in steel demand prompt such a restructuring, or will it usher in a round of covert state subsidy and cartelisation designed to keep the industry's nationalistic structure intact?

Pressure is building up on both sides. Senior officials at the German steel federation warn that "a new round of covert subsidies is a real threat". Executives at Ilva say the main threat is "a destruction of markets as producers

go for volume with no regard for price".

The privately owned producers - Thyssen, Hoogovens, British Steel - are alarmed by the recent deal in which Credit Lyonnais, the French state-owned bank, paid FF2.5bn (\$260m) for a 10 per cent stake in Usinor, and by Ilva's request for more funds from IRI, the state holding company.

Mr Alan Cox, chief executive of ASW, the British steel and wire producer, claims prices in continental Europe are not sustainable unless producers are being supported by state aid or subsidy no longer permitted by the European Commission.

The industry is very capital-intensive, requiring huge investments over long periods. Yet it makes a commodity product which can suffer wild swings in demand.

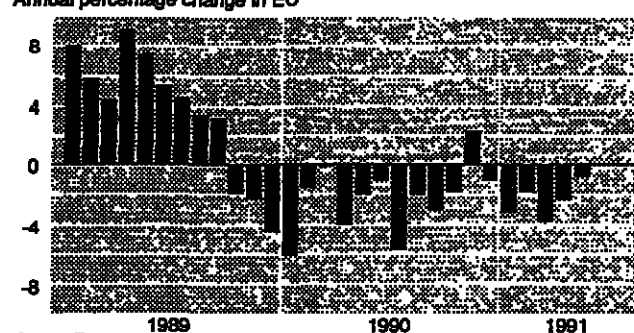
However, it seems unlikely that this downturn will provoke a crisis to compare with that of the 1970s, when the industry continued to add capacity even though demand fell sharply after the first oil price rise in 1974.

Neither problem is so big now. Additional capacity is being created by making better use of existing plants, rather than by building new ones.

The producers are acting more swiftly to cut costs. Hoogovens plans to reduce costs by 15 per cent over the next four years and even Ilva, which is the most troubled of the big European producers, hopes to

Iron and Steel production

Annual percentage change in EC



Source: Eurostat

break even this year, compared with a \$1.6bn (\$240m) loss in the last recession.

First moves towards cross-border technical collaboration have taken place, but collaboration to encourage rationalisation is still rare.

Mr Francis Mer, chairman of Usinor Sacilor, the largest European steel group, believes the downturn will not be intense enough to force radical change. However, a set of factors will promote change in the medium run:

● Publicly-owned steel companies will have to seek alternative finance for investment as state subsidy becomes less of an option. Companies will have to seek alliances to share the costs of development. By the mid-1990s, more of the industry will be privatised. Mr Mer says privatisation will become an

option for Usinor after the French presidential election in 1995, while Ilva has plans for at least partial privatisation that year.

● Europe will have to become more open to trade in steel. Western producers are coming under pressure from eastern European steel. Both Usinor and Ilva are developing southern European strategies linked to the development of steel industries in Turkey, Greece and, in Ilva's case, Iran and Algeria. By the end of next year, there should be a new international agreement on steel trade which will further open the EC market.

● The European car industry, one of the sector's main customers, will be shaken up in the next few years as Japanese car-makers expand their activities in the EC. This could par-

ticularly hit suppliers to car companies which have been least exposed to Japanese competition - Usinor, the main supplier to Renault and Peugeot, and Ilva, which supplies 60 per cent of Fiat's steel.

● The long products sector, which makes products such as railway tracks and construction beams, is a prime candidate for radical restructuring. Eastern European producers specialise in this area, which accounts for about 60 per cent of their production. It is also the main product made by electric arc mini-mills. This will force companies to adapt. Usinor and Arbed of Luxembourg have already formed a joint venture to market long products. Thyssen has formed a joint venture with Beltrame, the Italian mini-mill, to run its Oberhausen works.

● The EC is becoming tougher on the industry. Sir Leon Brittan, competition commissioner, has taken a strict line on state aid and alleged cartels. However, a senior German steel executive warns: "Competition was never enough alone to rationalise the steel industry - it will need political direction as well."

As the German economy slows this year, the pressure for cross-border restructuring will grow. But the pace of change will probably be tortuously slow. As Mr Mer says: "Steel executives are not stupid but they can be very stubborn."

Promotion will leave Schäuble as Kohl's heir

By Quentin Peel in Bonn

MR Wolfgang Schäuble, the wheelchair-bound German interior minister who survived an assassination attempt last year, was confirmed this week in his role as the only obvious heir apparent to Chancellor Helmut Kohl in his Christian Democratic Union, the senior partner in the German coalition government.

At the same time, details of a limited cabinet and party reshuffle this autumn suggest the chancellor is facing a dearth of talent in his party at a time of growing public disenchantment.

The reshuffle will follow the promotion of Mr Schäuble from his present role to that of CDU party caucus leader in the German Bundestag, a key position in the party hierarchy.

In his place as interior minister will come Mr Rudolf Seiters, currently the minister in the Chancellor's Office, and a Kohl loyalist. He will be replaced in turn by Mr Friedrich Böhl, a 46-year-old fellow lawyer who has risen steadily up the CDU parliamentary hierarchy.

The changes will take place at the end of November.



GPA Group plc, the world's largest aircraft leasing company, recently took delivery of a new 737-500, the 100th new Boeing airliner in its fleet.

The twinjet aeroplane was flown to Guangzhou in the People's Republic of China to begin

a ten-year lease to China Southern Airlines.

GPA was the first lessor to place new aircraft on operating lease in China, an increasingly important market.

GPA, with headquarters in Shannon, Ireland, has 97 airline customers in 46 countries.

The company, already Boeing's largest overseas customer for new-technology 737s, has orders and options for 190 more Boeing aircraft, stretching to 1997.

Boeing congratulates GPA on its growth and extends best wishes for continued success.

BOEING

INTERNATIONAL NEWS

Common man tilts at patrician president

George Graham runs the rule over a Democratic contender from Iowa, Senator Tom Harkin

DEMOCRATIC party contenders for the US presidential election next year have been unusually slow to put their names forward, but few of Senator Tom Harkin's supporters have been in any doubt in recent weeks that he would be in the race. The Iowa, who was preparing yesterday to announce his intentions, rarely leaves his friends or his enemies in any doubt on where he stands. An aggressive prairie populist - sometimes criticised as a demagogue - with strong farming and trade union constituents, Mr Harkin proudly proclaims himself the son of a earlier left-wing Democrats such as the late Vice-President Hubert Humphrey or Mr George McGovern, the party's defeated presidential candidates in 1968 and 1972 respectively. He also claims lineage, however, from such Democratic presidents as Harry Truman and Franklin Roosevelt. He argues that the Democrats' long losing streak in presidential elections is due to their efforts to look more like Republicans: "The Democrats must come up with a candidate who is not afraid to stand up for traditional Democratic values."

On the campaigning trail in his home state last week, the senator told his own life story as his version of the American dream: the son of a coalminer father and a Yugoslav immigrant mother, who paid his way through college with road-building jobs and an army scholarship, and who now sits next to a Rockefeller in the US Senate. The Iowa also recounts the souring of the American dream in the greedy 1980s: the story of his brother Frank, who was sacked from his factory job

after 23 years by faceless investors and ended, 54 years old and deaf, cleaning toilets at a shopping mall.

His remedy is an interventionist programme based on infrastructure investment - the sort of government construction projects that gave his father work in the great depression and helped pay for his education.

"If I am elected president, I will not be fine-tuning Reaganomics, I will put it on the trash heap of history. We will have a new economic policy called resource-based economics," he says. He mocks the "trickle-down" policies of the Reagan era, arguing for investment at the bottom to be allowed to percolate up: "We have had some droughts in Iowa but I have never seen a drought like the one we had waiting for all that stuff to trickle down. There hasn't even been a thin drizzle - I would have settled for a heavy dew."

Mr Harkin has been heavily involved in farm legislation. In 1985 and 1987, he sponsored bills that would have turned the current subsidies system upside down by substituting rigorous supply management. His state depends heavily on farm exports but his ties to the labour movement help to make him one of the most protectionist members of Congress.

He is weak on the specifics of his economic programme, but it is clear where the money would come from. Playing on Iowa's tradition as an isolationist and dovish state, he asks: "Do you want to continue spending \$160bn of your money defending Europe against the Soviet Union, or whatever it is called now?"

Mr Harkin put down a marker last week, on the first



Tom Harkin, in front of Old Glory, flourishes a suitcase to make his point that George Bush pays too much heed to foreign affairs

day of the autumn Senate session, by proposing the transfer of \$3.1bn from the defence budget to health, education, and low-income welfare. This was defeated, but the theme is likely to recur often in the coming year. While seeking the Democratic nomination, Mr Harkin seems likely to embody the party's traditionalist wing against more revisionist candidates such as Governor Bill

Clinton of Arkansas, who want to get away from the Democrats' tax-and-spend image, and favour a wider international role for the US. Iowa, because its February caucus are the first in the US election cycle, usually carries disproportionate weight in the Democratic party selection. Some party officials argue that this has often favoured candidates on the party's left wing. However, Mr Harkin being

from Iowa, the state's choice this year may have less impact. Such potential candidates as Senator Bob Kerrey from neighbouring Nebraska could do well in Iowa, but many candidates might well concede the state's delegates to Mr Harkin, especially if popular California, as Democratic officials hope, brings its primary forward to March 3, near the start of the selection cycle. "I would have to do better

here [in Iowa] than anyone ever has," he acknowledges. Senator Harkin's self-portrait as the champion of the working man against the patrician incumbent president - whom he rarely fails to label in full as George Herbert Walker Bush - could win popular support outside his home state. His stock of sharp-edged wisecracks at the president's expense promises to enliven the campaign trail.

Shoestring air challenge to Chile's carriers

By Leslie Crawford in Santiago

LAUNCHING an airline in these days of crowded skies and collapsing profits smacks of bad timing. Doing it without bank credits, advertising, computers or even an office telephone would appear to be downright foolhardy, if not impossible.

Mr Imad Saba, a 30-year-old Palestinian who arrived in Chile five years ago, wants to prove that it isn't. Saba Airlines has just celebrated its third month of operations, flying from Africa in the far north of Chile to Punta Arenas in the far south, in two leased Boeing 737-300s. Mr Saba says he is determined to break the duopoly of Lan-Chile and Ladeco, the country's long-established carriers. He has no money for advertising, but his introductory fare, half of what Lan-Chile and Ladeco charge, is tempting customers away from the main airlines. By end-July, Saba Airlines had 19.3 per cent of the domestic market.

"Believe it or not, I am already making a profit," Mr Saba said beaming. "If I fly at 82 per cent capacity, I reach my break-even point, and now my flights are three-quarters full." Looking east, beyond the Andes, Mr Saba dreams of becoming the Richard Branson of Latin America. He plans to start flying to Paraguay and Argentina next year. Mr Saba claims Lan-Chile and Ladeco did their utmost to stop him from flying. Lan-Chile cancelled a maintenance contract at the last minute, forcing him to hire his own mechanics. He says he had difficulties insuring his aeroplanes because his rivals spread rumours in the market that he was running a "Mickey Mouse" operation.

Banks have denied him credit, so he pays for fuel and food 15 days in advance, in cash. The Saba Airlines main office, in the northern port of Iquique, still lacks a telephone. Reservations are hand-written because Mr Saba says he cannot afford to buy computers. "The banks will not lend me a single dime," he explains. He has sold his trading businesses in Singapore and the US to raise cash, and invested his \$4m savings to get his airline off the ground.

Mr Saba appears to have won fortune and enemies in about equal measure. Soon

after he had set up an electronics warehouse in the Iquique free trade zone in 1988, he incurred the wrath of his competitors by undercutting their prices by more than half.

Insurance companies have filed a civil suit, alleging arson by Mr Saba in connection with a fire that destroyed \$4m of goods at one of his warehouses last year.

The launch of Saba Airlines could not have come at a worse time for Lan-Chile and Ladeco. The two traditional rivals are recovering from ill-conceived expansion plans, followed by a state of cut-throat competition which shaved profit margins even before the Gulf crisis raised fuel prices.

Lan-Chile was rescued from bankruptcy by a crisis management team installed last year by Scandinavian Airline Systems (SAS), the company's biggest shareholder. Asset sales and cost-cutting have helped the company to recover to a \$1.4m profit in the first quarter of 1991, having lost \$6.4m last year. Lan-Chile, in which Iberia of Spain holds a 35 per cent share, has become a closed private company, releasing it from the obligation of publishing financial results. But pilots at Ladeco say it has shed staff to cut costs.

Lan-Chile and Ladeco buried their rivalry last month to fight the increased competition of US airlines. They are lobbying the government to press dumping charges against the bargain fares offered by US carriers on the Santiago-Miami route. They may yet make common cause to trip Saba Airlines in the bud.



Saba: High flier

Aquino wants referendum on US base

PRESIDENT Corazon Aquino of the Philippines said yesterday she had lost hope that the country's Senate would approve a new lease for a US naval base, and she would ask the people in a referendum to allow the US to keep the base, AP reports from Manila.

Twelve of the 23 senators have said they will reject a 10-year extension for Subic Bay naval base when they vote today, the day the current lease expires. Approval requires a two-thirds majority.

"I propose we take the issue directly to the

people," Mrs Aquino said in a national television address.

She had said earlier that such a referendum would probably be held between mid-December and March, after the government had gathered 3m signatures to request a referendum, as required by law.

The US forces might delay their departure from the base until the referendum's results were known, though US officials have said they would withdraw as soon as possible if the Senate were to reject a new lease of the base.

Fujimori visits Bush

PRESIDENT Alberto Fujimori of Peru will be in Washington today to visit President George Bush, as allegations of growing human rights abuse in Peru threaten US anti-drug assistance there, AP reports from Lima.

Mr Fujimori is expected to outline to Mr Bush steps which Peru is taking to control human rights violations, as its

army fights the Shining Path Maoist guerrillas.

These often protect cocaine traffickers in the Upper Huallaga Valley, source of much of the world's coca leaf.

Mr Fujimori is also to meet the heads of the International Monetary Fund, the Inter-American Development Bank and the World Bank during his week-long visit.

New president takes over in Surinam

MR Ronald Venetiaan, a former schoolteacher, will begin a five-year term today as president of Surinam, ending almost four months of uncertainty over the leadership of the republic on South America's north coast, writes Gannett James in Kingston.

No candidate having obtained the required majority in a poll in May, Mr Venetiaan was elected a week ago by a special assembly of regional and community leaders in the former Dutch colony.

He takes office amid continuing uncertainty among Surinam's 400,000 people about the future role of the army in the country's politics. Mr Desi Bouterse, the army strongman who led the government in 1980-87, has said the army will not interfere in politics. Other senior officers have contradicted this.

The new president's first task will be to strengthen the struggling economy, based on bauxite mining and aluminium smelting, as well as on agriculture, mainly rice and bananas. He will be under pressure to make unpopular cuts in government spending and to devalue the currency.

Nicaragua paying arrears

By Nancy Dunne in Washington

NICARAGUA is paying off the \$300m in arrears of its debt to the World Bank and Inter-American Development Bank, and preparing to receive new loans from the multilateral financial institutions. The government of President Violeta Chamorro was able to clear its arrears with contributions and credits from 17 countries and a \$198m bridging loan by Colombia, Mexico, Spain and Venezuela.

The Nicaraguan embassy in Washington said the International Monetary Fund would recommend on Wednesday Nicaragua's first stand-by facility in 12 years. World Bank and IADB structural adjustment loans are expected to be approved during the week starting September 23. The clearing of Nicaragua's arrears began in July 1990 with the first in a series of meetings in Rome with donors.

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ROYAL BANK OF CANADA

Dividend No. 417
NOTICE IS HEREBY GIVEN THAT a dividend of 25 cents per share upon the paid up common shares of this Bank has been declared for the current quarter and will be payable at the Bank and its Branches on and after 22 November, 1991 to shareholders of record at close of business on 24 October, 1991.

By Order of the Board
Jane E. Lawson
Vice-President & Secretary

NOTICE OF HOLDERS OF Bearer Warrants (the "Warrants") to subscribe for Shares of Common Stock of Matsushita Electric Works, Ltd. (the "Company")

Issued in conjunction with U.S.\$300,000,000 3 per cent. Notes 1992

Notice is hereby given, pursuant to Clauses 3(d)(ii) and 4 of the Instrument relating to the Warrants dated 30th September, 1987, that because of the new issuances of Y55,000,000 4.3 per cent. Convertible Bonds due 2000 and U.S.\$200,000,000 4-5/8 per cent. Notes due 1995 with Warrants, on 12th September, 1991, the Subscription Price of the Warrants has been adjusted as follows:

- Subscription Price before such adjustment: Y2,045.30 per share of common stock.
- Subscription Price after such adjustment: Y2,027.30 per share of common stock.
- Effective date: 13th September, 1991 (Japan time).

MATSUSHITA ELECTRIC WORKS, LTD.
By: The Bank of Tokyo Trust Company as Disbursement Agent

Dated: 16th September, 1991

Notice to the Warrant Holders of
TOYO KANETSU K.K.
(the "Company")

Bearer Warrants to subscribe for shares of common stock of the Company (the "Shares") issued with U.S.\$100,000,000 4 1/2 per cent. Guaranteed Notes 1995

"Adjustment of Subscription Price"

Notice is hereby given that the Company has resolved at the meeting of the Board of Directors held on 16th May, 1991 to split the Shares (the "Stock Split") owned by the shareholders appearing on the register of shareholders of the Company as at 30th September, 1991 (Japan time) at the rate of one point one (1.1) Shares to one (1) Share held by them; provided, however, that the fractions of a full Share occurring upon such Stock Split shall be sold as a whole and the proceeds of the sale shall be distributed to the shareholders entitled thereto in proportion to their fractional interests, and as a result of such Stock Split the Subscription Price for the captioned Warrants shall be adjusted as follows:

- Subscription Price before adjustment: Yen 697.00 per Share
- Subscription Price after adjustment: Yen 633.60 per Share
- Effective date of above adjustment: 1st October, 1991 (Japan time)

Under the amendment to the Commercial Code of Japan which took effect on 1st April, 1991, the term "Stock Split" means any kind of stock split in relation to the Shares and includes such free share distribution and such dividend in Shares to the shareholders as are prescribed in the Instrument constituting the captioned Warrants.

TOYO KANETSU K.K.
19-20, Higashishima 8-chome, Koto-ku, Tokyo, Japan
By The Fuji Bank and Trust Company

16th September, 1991

They both drive on the left,
like a nice cup of tea, a good Agatha Christie,
and a fine quality tweed...



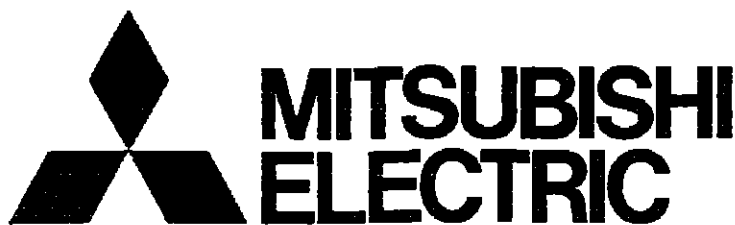
Now, they both have a taste for Apricots!

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We support the Festival.

US diplomat holds hostage talks in Beirut

By Lara Marlowe in Beirut

A SENIOR US diplomat visited Beirut at the weekend for talks which included the issue of western, Arab and Israeli hostages in the Middle East, amid continuing forecasts that the liberation of a western captive in Lebanon was imminent.

Mr John Kelly, US assistant secretary of state for Middle Eastern affairs, who has a history of involvement in hostage negotiations, called on the Lebanese president, prime minister and speaker of parliament.

It is thought the next western hostage due to be freed in a complex exchange involving Lebanese Shia Moslem groups, Israel, Iran, Syria and the United Nations, will be Mr Jackie Mann, the 77-year-old Briton and former pilot.

Meanwhile Mr Farouq al-Sharara, Syrian foreign minister, travelled to Beirut to address the question of two Lebanese brothers whose freedom is demanded by hostage-takers.

An Israeli newspaper said Mr Uri Lubrani, the chief Israeli hostage negotiator, would meet Mr Javier Pérez de Cuellar, UN secretary-general, in Paris within a few days.

Mr Kelly's visit to Beirut on Saturday followed the departure of his Iranian counterpart, Mr Mohamed Kazem Khonsari,

MR James Baker, US secretary of state, will today tackle an Israeli government seething with resentment against President George Bush when he arrives in Jerusalem at the start of a Middle East tour meant to smooth remaining obstacles to a regional peace conference, writes Hugh Carnegie in Jerusalem.

US-Israeli relations plummeted last week after Mr Bush's insistence on delaying until after the planned conference congressional consideration of US loan guarantees worth \$10bn (\$5.9bn) to help fund Soviet Jewish immigration.

In cabinet yesterday, far-right ministers demanded that Mr Yitzhak Shamir, the prime minister, boycott peace talks until the guarantees are approved. Mr Rehavam Zeevi, one of the most extreme ministers, called Mr Bush a liar and close to an anti-semitic.

who was said to have visited the kidnappers as well as the same Lebanese officials called on by Mr Kelly.

US officials in Washington said the hostage issue was only in cabinet yesterday, far-right ministers demanded that Mr Yitzhak Shamir, the prime minister, boycott peace talks until the guarantees are approved.

India seeks help to fund payments deficit

By David Housego in New Delhi

THE INDIAN government meets western donor nations and multilateral institutions in Paris this week amid uncertainty over how it will secure funds to finance this year's expected deficit on the balance of payments.

India has still to find \$600m-\$700m of the \$3.7bn (\$2.18bn) the World Bank believes it will need in emergency assistance from bilateral donor countries and the multilateral institutions to finance the current account deficit and repayments of principal on its outstanding debt.

The country is unable to borrow on the international commercial markets because of continuing fears over its creditworthiness.

India needs about \$9.2bn this year in capital inflows to cover an expected current account deficit of \$6bn and principal repayments of \$3.2bn. Of this only \$5.5bn is covered by normal aid flows, foreign investment and trade credits.

Diplomats and bankers in Delhi believe if there is insufficient confidence abroad in India's determination to carry through radical reforms, the government could be forced into even tougher import curbs to avoid the risk of a default.

Japanese free-marketeer sets reform pace

AT THE age of 78, many a distinguished Japanese industrialist would be happy to spend most of his time on the golf course. Not Mr Eiji Suzuki.

He has just spent two months doing one of the most difficult jobs of his long career - preparing plans for reforming Japan's financial markets in the wake of the recent spate of scandals in the securities and banking industries.

As chairman of a reform committee appointed by Mr Toshiki Kaifu, prime minister, Mr Suzuki had to tread a difficult path between officials at the Ministry of Finance, who fought to defend their powers, and the ministry's critics, who argued the ministry itself was in need of overhaul.

The two sides lobbied Mr Suzuki and his committee until the last moment, delaying publication of the report by half a day as clerks tried to draft a final version. The key argument concerned proposals for a watchdog organisation to take over from the Finance Ministry the inspection of securities and banking.

Reformists, including some members of Mr Suzuki's committee, insisted the new body should be independent, like the US Securities and Exchange Commission. But ministry officials said the watchdog should be incorporated inside the Ministry of Finance.

The committee has settled on a compromise - a watchdog which will be separate from the ministry but reporting to the finance minister. To be called the Securities and Financial Inspection Commission, it will have investigative powers over financial companies and investigate documents.

But it will not have the right to impose punishments: that will stay with the finance minister. The minister will nominate the commission's members, but will be barred from appointing present or past Finance Ministry officials.

Critics say the Finance Ministry has won and managed to keep its authority intact, since it will not lose the right to punish wrongdoers. Mr Suzuki argues he has produced a workable solution - a watchdog which "is separate from the ministry but able to communicate with it".

Looking tired from his efforts, he adds: "In Japan we have a saying that a difficult birth produces a healthy baby."

Stefan Wagstyl on the difficult course charted by Eiji Suzuki

Mr Suzuki is the former president and former chairman of Mitsubishi Kasel, the chemicals company and core member of the Mitsubishi industrial group. He is now the company's senior adviser.

He has held senior posts at Japanese employers' organisations since 1975, including the presidency of Nikkeiren, the Japan Federation of Employers' Associations.

Mr Suzuki is a firm believer in free markets, a principle he wants to see applied more

extensively in Japan's financial system. He argues that for too long the Finance Ministry has cosseted financial companies, putting promotion of the financial industry ahead of the need for open and fair regulation and investor protection.

"We need to make a liberalised market in which financial companies are free to go bankrupt," he says.

The Finance Ministry needs to set clear rules for the operation of the markets and then stand back. It should supervise at arm's length and should rely on full and frank disclosure by financial companies combined with a strong inspection system to detect wrongdoing, Mr Suzuki believes.

In this way market forces would operate more freely within a clear framework of rules. There are risks involved in giving companies more freedom but Japan has to take them, he argues. "Certainly it is dangerous. But if we go in the opposite direction [of more restrictions and more interference] we cannot create international markets in line with those in the US and the UK."

These principles are reflected in Mr Suzuki's report. The committee says it wants to create "freer, fairer and clearer" markets. As well as the establishment of the watchdog, it recommends codifying unwritten ministerial administrative customs into clear rules and regulations. It urges companies to assume a greater responsibility for regulating their own affairs - with a requirement for greater disclosure to make sure they do.

The committee also supports liberalising stock exchange commission rates to force securities companies to compete more fairly for business instead of currying favour with important customers by paying them compensation for trading losses - one of the abuses behind the current scandals.

The report says the scandals, involving compensation for losses, links between securities companies and gangsters, and banks making illegal loans, did not happen by accident. The policies of financial companies and of the Finance Ministry created conditions which allowed abuses to develop.

S Africans euphoric over peace accord signing

THE WEEKEND signing by South Africa's main political groupings of an accord aimed at curbing violence marks the beginning in earnest of the country's peace negotiations, writes Philip Gawth in Johannesburg.

The accord is by far the most significant multilateral agreement signed by the government, the African National Congress and the Inkatha Freedom party. Although violence in Transvaal townships provided a sober backdrop,

the pact has been welcomed by most South Africans in euphoric terms. Archbishop Desmond Tutu described it as a "historic day, quite unparalleled in the annals of our land".

Political violence has been the single most divisive issue in South Africa over the past year. But the accord has lined up all the main protagonists on the same side, in favour of peace. The commitment to principles of liberal democracy and the nascent power sharing

that the accord embraces have also given it resonance far beyond the issue of violence.

The main features of the accord are:

- A code of conduct for the police which holds them accountable to society, not the government.
- A code of conduct for political parties which commits them to upholding a climate of political tolerance.
- A network of monitoring and enforcement mechanisms, under a

peace committee, to help implement the accord at grassroots level.

• Independent structures to address complaints about security force conduct.

- An independent statutory commission to investigate and expose causes of violence.
- Special courts to expedite handling of political violence cases.
- Measures to assist socio-economic reconstruction at the local level.

peace committee, to help implement the accord at grassroots level.

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- Measures to assist socio-economic reconstruction at the local level.

UN group urges rethink of approach to developing country reform

Unctad cautions on deregulation

By William Dullforce in Geneva

A STRONG challenge to current policy prescriptions encouraging developing countries to give free rein to market forces is launched today by the United Nations Conference on Trade and Development (Unctad).

In particular, in its annual report the UN organisation which functions as watchdog for the relationship between the industrialised and developing world warns against precipitate financial deregulation. It calls for a new look at the liberal approach to domestic financial reform advocated for developing countries by the World Bank and the International Monetary Fund (IMF).

In a special section devoted to finance, investment and savings, Unctad's economists claim that fashionable financial recipes calling for the abandonment of "financial repression" are not promoting development. They deny the existence of a global savings shortage; they deplore the tendency to introduce in developing countries a "Anglo-Saxon" banking system which gives a central role

to capital markets; and they argue that government intervention in the allocation of credits is indispensable.

Separately, the Unctad stresses that the three crucial elements for promoting development remain domestic macro-economic reform, negotiated debt reduction and growth in export earnings.

Unctad's 1991 report is a plea for a long-term approach in Third World financial systems rather than the short-termism implicit in simplistic liberalisation recipes, Mr Lawrence says.

For the last few years the Unctad annual report has focused on the inadequacies of current programmes for reducing Third World debt. This year the emphasis has shifted. Nevertheless, the secretariat warns that the vicious circle of overindebtedness, domestic financial disorder and low economic growth persists in many developing countries.

Unctad continues to complain that the agreements reached under the plan proposed by Mr Nicholas Brady, US Treasury secretary, for reducing debts owed to com-

mercial banks have resulted in only minor alleviation of the debt burden. It calls for more extensive relief from official debt.

While it argues that evaluation of the Brady plan agreements can only be premature, the 1991 report acknowledges that in Mexico's case the debt agreement has created a "climate of greater economic confidence" which has led to a return of flight capital and a sharp rise in foreign equity investment.

The report welcomes "bold proposals" from the Netherlands and the UK for relieving the debt burden of the poorest, mainly African countries. It touches a sensitive point within the developing world when it asks that the "extraordinarily large" debt forgiveness agreed by creditors for Poland and Egypt be applied to middle-income developing countries on the basis of "objective economic criteria, not political preferences".

But the thrust of the 1991 report concerns Third World finance and the efficiency of financial markets. Dismissing

the premise that there is a shortage of global savings, Unctad's economists claim there is ample scope to curb the military spending, that household savings have not in reality been declining and that the cost of investment goods is falling sharply thanks to rapid technical progress.

Most importantly, they argue that as long as world production potential is not being fully utilised, investment can be stepped up through increased bank lending without governments and households having first to cut their consumption, since the investment itself would create savings by generating additional income. In this context Unctad approves a Japanese proposal for a new \$20bn (E11.8bn) allocation of Special Drawing Rights through the IMF to be linked to development finance.

Calling for closer examination of the financial policies pursued by the developing countries themselves, the Unctad report argues that the liberal approach backed by the IMF and World Bank - deregulation of interest rates, elimination of directed credit allocation and easing of restrictions on external finance - has not succeeded in lifting domestic savings and investment. In successful developing countries such as South Korea governments continued to intervene directly in



Unctad's economists claim there is ample scope for curbing military spending in the Third World

capital markets, pursued active industrial policies and directed credits.

In particular, the Unctad economists argue that the "Anglo-Saxon" model of short-term bank lending and long-term financing through capital markets carries greater dangers for developing countries than the Japanese or German bank-based systems.

Unctad Trade and Development Report, 1991. Geneva and New York.

Unctad's economists claim there is ample scope for curbing military spending in the Third World

Unctad's economists claim there is ample scope for curbing military spending in the Third World

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES					JAPAN					GERMANY					FRANCE					ITALY					UNITED KINGDOM					
	Exports	Imports	Current account balance	Effective exchange rate		Exports	Imports	Current account balance	Effective exchange rate		Exports	Imports	Current account balance	Effective exchange rate		Exports	Imports	Current account balance	Effective exchange rate		Exports	Imports	Current account balance	Effective exchange rate		Exports	Imports	Current account balance	Effective exchange rate	
1984	275.8	-136.8	-125.5	0.7891	96.9	213.6	56.7	44.1	187.03	97.9	218.3	24.2	12.5	2.2387	100.0	123.7	-3.6	-1.1	6.8715	99.1	93.4	-13.9	-5.2	1381.5	105.9	118.9	-9.0	3.1	0.5908	100.0
1985	279.8	-174.2	-160.5	0.7823	100.0	230.8	76.0	64.5	180.50	100.0	242.8	33.3	21.7	2.2259	100.0	133.4	-4.5	-0.2	6.7941	100.0	103.7	-18.0	-5.4	1443.0	100.0	132.4	-5.7	4.7	0.5891	100.0
1986	290.9	-140.8	-147.8	0.8936	80.2	211.1	96.2	86.8	165.11	124.4	248.6	53.5	40.3	2.1279	108.8	127.1	-0.1	3.0	6.7946	102.8	99.4	-2.5	-1.4	1461.6	101.4	108.3	-14.1	-0.1	0.6708	91.5
1987	220.2	191.8	-138.8	1.1541	197.3	261.1	75.2	184.39	133.2	254.2	56.7	39.8	0.7712	115.3	128.3	-4.5	-3.6	6.8287	103.0	100.7	-7.5	-2.1	1484.3	101.2	112.7	-15.9	6.1	0.7047	90.1	
1988	272.5	-100.2	-106.7	1.1833	66.0	219.8	80.7	86.5	151.81	141.9	272.6	61.7	42.8	2.0739	114.6	141.8	-4.6	-3.4	7.0354	100.8	108.3	-8.9	-2.0	1536.7	97.8	121.6	-21.7	-23.2	0.6843	95.5
1989	330.2	-99.3	-96.5	1.1017	88.4	245.4	70.3	52.3	151.87	141.9	310.2	65.3	52.0	2.0681	113.5	162.9	-6.4	-3.6	7.0169	99.8	127.8	-11.3	-17.0	1509.2	98.8	136.0	-35.7	-28.5	0.6728	82.5
1990	308.8	-79.8	-72.3	1.2745	85.1	219.8	50.0	28.4	183.94	126.0	324.2	61.4	51.7	2.0538	119.1	170.0	-7.3	-6.4	6.8203	104.8	133.6	-9.3	-18.9	1523.2	100.6	143.7	-25.0	-19.3	0.7150	91.2
3rd qtr.1990	74.6	-21.3	-18.4	1.2980	64.1	54.3	12.7	5.4	188.36	123.7	82.1	12.4	7.2	2.0882	118.6	41.9	-2.7	-2.7	6.8345	104.9	31.2	0.2	-2.2	1527.8	100.7	36.7	-5.4	-2.8	0.6878	94.2
4th qtr.1990	74.2	-18.8	-17.1	1.3714	60.8	55.2	12.5	4.3	179.38	133.8	82.5	7.2	6.2	2.0589	120.0	42.2	-2.4	-1.0	6.9400	105.6	35.8	-2.0	-7.7	1547.5	99.8	36.8	-4.2	-2.3	0.7050	94.1
1st qtr.1991	75.7	-12.7	-7.8	1.3435	61.8	56.2	19.6	13.3	179.81	132.1	81.9	3.4	4.5	2.0562	119.8	42.4	-1.9	-2.8	6.9940	104.3	32.4	-4.2	-8.0	1540.8	100.1	35.7	-4.0	-3.7	0.7040	93.8
2nd qtr.1991	82.2	-11.2	-2.5	1.1849	65.4	61.0	19.5	15.8	183.94	135.9	78.4	-0.3	-5.3	2.0657	118.2	43.2	-1.1	-1.0	6.8821	102.0	35.3	-3.4	-5.8	1525.3	99.8	37.6	-3.1	-1.3	0.6942	91.4
August 1990	24.6	-7.1	n.a.	1.3192	63.7	17.7	4.4	2.2	194.52	120.8	27.8	4.0	1.9	2.0713	119.0	14.2	-0.75	-0.41	6.9498	105.1	7.5	0.2	0.1	1528.2	101.2	12.2	-1.8	-0.94	0.6944	91.3
September	24.5	-6.9	n.a.	1.3154	63.0	18.4	4.2	1.8	182.40	128.5	27.4	3.8	3.2	2.0655	118.7	13.6	-1.37	-1.40	6.9178	105.3	10.7	-1.2	-1.2	1542.5	99.7	12.7	-1.0	-0.13	0.7002	93.8
October	25.5	-7.3	n.a.	1.3586	60.9	18.4	4.3	1.8	175.95	126.6	28.4	4.5	3.3	2.0679	119.1	14.8	0.84	0.42	6.9255	105.5	12.4	-1.0	-2.7	1549.3	99.4	12.5	-1.6	-0.95	0.6974	94.8
November	24.2	-6.9	n.a.	1.3861	60.2	18.4	4.2	1.5	176.84	128.4	27.8	1.5	0.8	2.0583	120.2	14.4	-0.20	0.16	6.9299	105.8	10.9	-2.4	-2.1	1547.4	99.8	12.4	-1.4	-0.70	0.7055	94.2
December	24.5	-4.6	n.a.	1.3716	61.2	18.3	4.0	0.9	183.34	130.9	26.5	1.3	2.1	2.0506	120.8	13.1	-1.34	-0.78	6.9645	105.3	12.5	1.3	-3.0	1545.8	100.1	11.9	-1.2	-0.57	0.7123	93.3
January 1991	25.1	5.4	n.a.	1.3827	61.2	18.7	5.2	2.9	182.13	131.1	28.4	0.7	-1.0	2.0582	120.2	14.5	-0.53	-0.42	6.9683	104.7	9.9	-3.2	-3.4	1545.8	100.0	11.8	-1.8	-1.70	0.7043	94.1
February	24.2	-4.0	n.a.	1.3889	60.2	18.4	7.7	4.2	181.25	133.2	26.1	1.4	0.6	2.0571	120.7	11.3	-0.6	-0.6	6.9435	104.8	11.8	-0.6	-2.6	1543.5	100.5	11.8	-1.0	-0.82	0.7071	94.3
March	26.6	-3.2	n.a.	1.2779	63.9	21.2	6.6	6.3	175.44	132.0	28.9	1.3	-2.8	2.0554	118.6	14.0	-0.80	-0.85	6.9851	103.2	11.1	-0.4	-1.9	1533.1	99.8	12.1	-1.2	-1.09	0.7005	92.9
April	29.9	-3.7	n.a.	1.2091	65.8	18.7	6.5	6.4	165.79	135.7	25.1	0.4	-1.2	2.0604	116.4	14.7	-0.30	-0.80	6.9606	102.4	11.4	-1.5	-2.7	1526.3	99.8	12.3	-1.2	-0.62	0.6917	92.3
May	28.6	-0.0	n.a.	1.1527	69.7	20.9	4.9	164.84	135.4	27.3	2.7	-2.2	2.0505	116.3	14.2	0.30	0.27	6.9574	102.0	11.3	-2.1	-0.8	1522.9	99.7	12.2	-0.5	0.06	0.6904	91.7	
June	30.2	-3.5	n.a.	1.1531	67.8	21.8	7.1	4.5	160.89	136.8	28.0	-0.8	-1.8	2.0541	115.8	14.3	-0.54	-0.83	6.9588	101.6	11.3	-0.1	-1.3	1523.0	99.7	12.2	-0.5	0.06	0.6904	91.7
July	30.1	-1.5	1.5055	67.8	66.1	21.8	7.1	4.1	158.49	138.8	28.0	-0.8	-1.8	2.0522	115.8	15.1	-0.61	-0.83	6.9570	101.4	11.3	0.1	-2.2	1526.7	99.7	12.8	-0.8	0.24	0.6902	91.2

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Due October 2023

NOTICE IS HEREBY GIVEN to Bankers Trust Company Limited (the "Trustee") and to the holders of the Class C-1 Mortgage Backed Floating Rate Notes Due October 2023 (the "Class C-1 Notes") of Mortgage Funding Corporation No. 3 PLC (the "Issuer") that, pursuant to the Trust Deed dated 21st October, 1988 (the "Trust Deed"), between the Issuer and the Trustee, and the Agency Agreement dated 21st October, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class C-1 Notes, Class C-1 Notes in the amount of £5,000,000 will be redeemed on 1st October, 1991 (the "Redemption Date"). The Class C-1 Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

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774	776	787	805	816	827	831	863
930	935	952	961	1023	1028	1033	1090
1121	1154	1159	1172	1177			1117

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Cellular Telecommunications
Licenses in Greece

The Government of the Hellenic Republic announces the commencement of a competitive process to select investors to undertake the development and operation of two digital (GSM) cellular telecommunications systems in the Hellenic Republic.

Prospective investors are asked to submit expressions of interest and qualifications, individually or as a consortium, to acquire the licenses for, and own, construct and operate, cellular telecommunications systems with exclusive rights to serve the entire 10 million population of Greece.

The licenses will be awarded based principally on the investors' telecommunications experience, expertise in comparable development projects, capabilities, planned investment in this project and financial strength.

The Government of the Hellenic Republic and the Hellenic Telecommunications Organization (OTE) have engaged CS First Boston to act as their financial advisor in all aspects of the selection process. Expressions of interest and summary qualifications should be submitted to the following address by October 14, 1991:

P.O. Box 3655, Aiolou 100, Athens 10246, Greece

Parties seeking additional information concerning the project are requested to contact the following individuals at CS First Boston:

Athens	New York	London
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FT SURVEYS

UK NEWS

Warning of closures on London Tube

By Richard Tomkins, Transport Correspondent

STRETCHES of the London Underground may have to close temporarily if the government fails to pump more money into the network, London Transport has warned.

LT says it may also have to shelve plans for a new Underground station to serve the Channel tunnel train terminal being built at Waterloo.

The warnings come as the Treasury weighs up competing bids for government cash in the run-up to the Autumn

Statement on its public spending plans.

LT maintains that it needs to double the rate of investment in the Underground - now running at £370m a year - to reverse the deterioration of the network.

Its claims received support in June when a report from the Monopolies and Mergers Commission blamed deficiencies in Underground services on "chronic under-investment" by successive governments.

Until now LT has declined to

spell out the consequences if the Department of Transport fails to provide an increase in its grant.

But senior LT executives are threatening to embarrass the government with such a list if the allocation in this year's public spending round falls short of its aspirations.

Included in the list will be: speed restrictions and temporary track closures caused by the failure of repairs and replacements to keep up with the rate of deterioration;

severe disruption to services caused by deterioration of the track and by flooding from collapsing drains;

shelving of station-modernisation plans and delays to the replacement of worn-out lifts and escalators;

postponement or cancellation of plans to extend and renew the Underground station at Waterloo to serve passengers leaving and joining Channel tunnel trains.

Senior London Underground executives say they need to

spend £5bn before the year 2000 on upgrading the existing infrastructure and a further £5bn on the construction of new lines.

The government damped hopes of a significant increase in London Transport funding earlier this month in its response to the MMC report.

Mr Roger Freeman, public transport minister, said: "It isn't reasonable to expect a quantum jump to be achieved in the short-term future. It isn't realistic."

Woman seeks to carve out forest revival

Paul Cheeseright on an attempt to transform part of the east Midlands landscape

SUSAN BELL has been charged with a mission. It is to change the landscape of the centre of England with 30m trees.

"We're not talking about wall-to-wall trees, we're talking about a wooded landscape," she says. This is the new national forest, the forest with no name, no land and no money.

"Up to now this has been something of a dream; the practicalities will be much more controversial," Ms Bell notes with the coolness of a politician at the start of a campaign. For she is now a politician, as well as a forester, a forestry expert, a lobbyist and an entrepreneur - whether she likes it or not.

Certainly the job of new national forest development director, Ms Bell's formal designation is more extensive than that normally given to a planner. Town and country planning is Ms Bell's background, both in private practice and at the Country Landowners' Association. But she has a leavening of public relations experience, and that comes in handy.

Ms Bell's brief is vague: although nothing has been laid down for the forest, there are myriad individual decisions to grow trees. This is vision translated on the cheap.

Unlike Mr Paul Reichmann, who is said to have spent over £1bn in three years to realise his vision of a new office city in London's Docklands, Ms Bell has been given £350,000 a year for three years.

What happens after that depends on what she does now. Over the next six months, decisions will be taken on where the forest will be, what sources of private and public sector funding might be raised, and what sort of organisation should exist after the current development programme. Mid-night oil will burn as business plans, environmental assessment and cost-benefit analysis are honed for public scrutiny.

The forest office has been set up in Donisthorpe, Leicestershire, an undistinguished village close to where Derbyshire, Leicestershire, Staffordshire and Warwickshire meet. The office is in a Victorian house

surrounded by some grand trees of its own. It is in the centre of what forest people call the area of search, the area spread over parts of the four counties where the forest boundary will be set.

The office sounds more imposing than it is. There are Ms Bell and two assistants. There will be Ms Bell, three other professionals, three assistants and a one-day-a-week consultant when the forest team reaches full strength. Again, not exactly Reichmannesque in scale.

Until Ms Bell and her team know exactly where they are going and how they are going to get there, there is a hiatus. The plan for a new forest was trumpeted last year. Since then nothing much seems to have happened. "If there's a silence, people are fearful and rumour is rife," says Ms Bell. "There are fears in the farming community about what woodlands might mean to them, dark hints about forest people buying land and pushing prices up, and concern that developers will be able to do what they want provided they agree to plant a few trees."

So notes Ms Bell, "an enormous part of the job is simply telling people what we are up to." Like the politician on the road, she spends a great deal of time talking to small groups. One typical day this summer she was in the office before 9am, had a meeting to brief the new regional secretary of the Country Landowners' Association, whose support she needs and whose psychology she understands because once she worked for it herself.

She fielded some newspaper enquiries, did some paperwork then dashed off across Leicestershire to meet the county's Rural Development Commission committee before returning to the office for some telephoning.

Out again in the early evening to a meeting of the Ramblers' Association, whose main concern is public access, and whose main worry is about at farmers obscuring footpaths.

Ms Bell has done enough of these meetings to be well rehearsed.

She runs through the history: how the Countryside Commission had the dream in



On the stump: Susan Bell in the grounds of her office

1987, how five possible areas were selected, how the final choice was made, how the project has government backing, although "the government has

made clear this is not to be a purely public-sector enterprise," she tells her audience how Mr Michael Heseltine, the environment secretary,

describes himself as "an enthusiast, but a sceptic."

She explains that the area of search, some 450 square miles, will be narrowed down to the forest area of 150 square miles. As Ms Bell answers questions, she is putting down markers and laying out principles. Above all she is trying to keep happy a number of people and groups with different interests.

"We hope we will be seen as the farmer's ally," she tells the RDC committee, while assuring the ramblers, some of whom say they have never met a nice farmer yet. "I would like the whole scheme to be geared towards public access, but that won't be achieved simply by demanding it."

The area of the Midlands where the forest will be has fewer woods than other parts, and has been scarred by mineral extraction. And there is more to come yet - "British Coal is still buying land in the area," she warns.

But she does not want the forest to be "the biggest reclamation project in the UK." Rather, it is a multi-faceted resource, and not just for locals. "We've got to have local support, but I'm very aware this is a national resource."

The forest could help economic regeneration by offering alternative land uses to hard-pressed farmers, although Ms Bell concedes, they are sceptical. "What is it that would actually trigger farmers and landowners putting their land to woodland?" she asks.

The forest can produce timber for commercial use. It can be like an ecological and environmental school. It will be there for recreation.

But it is doubtful whether it can do any of these things without a well funded organisation which, as well as encouraging others to plant, can plant itself and generate income from it.

Ms Bell sees the landscape as a mosaic, a recreational resource which can do other things. To create that mosaic will take a generation.

"It is going to be a balancing act, but if we cannot accommodate everybody's interests in 150 square miles of woodlands, we will have failed."

Government to relax rules on Tec board members

By Lisa Wood, Labour Staff

GOVERNMENT rules stipulating that only senior executives of a large company can sit on the boards of Training and Enterprise Councils (TECs) are to be eased in a few cases.

TECs which believe there are special reasons for appointing people such as personnel directors to their boards will be allowed to apply to the National Training Task Force for permission.

When Tec was set up, Mr Michael Howard, employment secretary, said only people of chairman or chief executive status were eligible to sit on their boards. That was because he wanted Tec board members to have clout within their own companies and among their peers.

Supporters of that view said that the influence of bodies

similar to Tec in the US had waned when the corporate status of their board members had fallen.

Some Tec, particularly in London, have found it difficult to attract chairmen and chief executives to their boards. Heads of large companies have been unwilling to take on such responsibilities. However, they

EMPLOYMENT

are unable to volunteer their personnel directors because of the government rules. That was until J. Sainsbury, the food retailer.

Professional organisations, including the Institute of Personnel Management (IPM), have urged the government to reconsider.

Mr Brian Ward Lilley, direc-

tor-general of the IPM, said: "To argue that the personnel director of a large company has less clout than the chief executive of a very small company does not make sense." He said he hoped that most Tec boards would have at least one personnel director on their boards.

Personnel directors will not be allowed to chair Tec boards, however. Mr Howard said in a letter to Mr Eric Dancer, chairman of G10, the group of Tec chairmen who act as a link between the Tec movement and the government, that maintaining the top business leadership of Tec was critical to their success.

Tec chairmen will therefore have to be full-time chairmen or chief executives of private-sector companies with workforces of more than 25 people and turnover of at least £5m.

Size of wage rises declined towards end of pay round

By Diane Summers, Labour Staff

EMPLOYEES with pay review dates in the second half of the last pay round received lower increases than those who settled in the first half, according to an analysis published today of the months from August 1990 to July 1991.

More than three quarters of agreements which led to rises above the October 1990 peak inflation rate of 10.9 per cent were reached between August and January, according to the survey by Labour Research Department (LRD), the union-backed research group. The survey covered nearly 600 collective agreements and more than 10.5m workers.

However, only a quarter of the agreements monitored were negotiated in the first half of the pay round. LRD said pressure to reduce the level of pay settlements in early 1991 "bore most heavily on the majority of workers in over half of all agreements which are negotiated from February onwards, with April being the most important month."

Most basic pay rises during the survey period were for 9 per cent or more, although there were considerable variations as unemployment climbed and inflation rose sharply and subsequently fell.

High inflation triggered a number of significant inflation-linked agreements, providing double-figure increases in early trend-setting private sector agreements, the report pointed out. Ford workers won increases of 13.4 per cent in the second year of their two-year deal, and Vauxhall staff received 13.6 per cent, again in the second year of an agreement.

About 16 per cent of agreements in the survey were paid in more than one stage, allow-

ing employers to reduce the immediate cost of increases. Examples included paper and paperback (8.4 per cent rising to 8.8 per cent) and Barclays Bank (7.5 per cent rising to 9 per cent).

Mr Dave de Lacey, plant convenor, said the new terms were worth about a quarter to a third of those provided by the company earlier this year when 270 people were made redundant. In the ballot, more than 90 per cent of manual worker voters were in favour of striking and about 90 per cent of clerical staff.

Employers to reduce the immediate cost of increases. Examples included paper and paperback (8.4 per cent rising to 8.8 per cent) and Barclays Bank (7.5 per cent rising to 9 per cent).

The government also negotiated agreements in more than one stage with National Health Service staff and teachers.

Bargaining Report. Special issue, Labour Research Department, 75 Blackfriars Road, London SE1 8EP. By subscription.

Tories tempted to keep option open of early poll

By Ralph Atkins

THE CHANCES of a November election have increased, cabinet ministers believe, following weekend opinion polls showing the Conservatives establishing a firm lead over Labour.

A lunch hosted yesterday by Mr Kenneth Baker, home secretary, for the prime minister was also attended by Mr John Wakeham, the energy secretary and the cabinet's "political fixer", and was almost certainly dominated by a discussion of party strategy.

Two opinion polls giving the Tories a lead of four and five percentage points have persuaded even those ministers pushing for a general election next year that a November poll is now possible.

However, ministers and Conservative Central Office are anxious to control expectations, producing an unstoppable bandwagon effect. Party strategists continue to believe next year is more likely.

Mr Baker described the Tories' position as "very encouraging" but urged the prime minister to keep his options open.

Conservative morale has also been boosted by reports, which party officials refused to confirm, that the wealthy Latis shipping family have donated a substantial sum, perhaps as much as £2m, to the party.

Labour tried to look unruffled by its decline in opinion polls, the result of an improved showing for the third-party Liberal Democrats. Party leaders and strategists were adamant that when attention refocused on domestic issues — such as the health service and education — the party would regain its lead.

Labour also complained that Mr John Major's "dithering" over the election date was creating damaging uncertainty.

However, party leaders were on the defensive over the poor personal standing of Mr Neil Kinnock, Labour leader, compared with Mr Major.

"It is almost one of the features of British politics that a Labour leader, particularly one who's effective, comes under particular attack," said Mr John Smith, opposition economics spokesman.

A party political broadcast made by Mr Hugh Hudson, the film maker, on September 25 is expected to focus on Mr Kinnock in the hope of repeating the success of a similar broadcast during the 1987 election.

The Harris poll in yesterday's Observer put the Conservatives on 43 per cent, Labour on 38 per cent and the Liberal Democrats on 15. The ICM poll for the Sunday Express put the Tories on 41 per cent, Labour at 37 per cent and the Liberal Democrats on 17.

Cold comfort in election lore

John Major prepares to choose polling day: Philip Stephens reports

IT IS AT times like this in the electoral cycle that prime ministers turn to the history books. The lessons for Mr John Major are decidedly awkward.

The publication of another two opinion polls yesterday showing the Conservatives with a lead over Labour of four to five points intensified the speculation that he will be tempted into a November poll.

The truth is that neither he nor his most trusted advisers have made up their minds. That in itself is significant.

Mr Chris Patten, the party chairman, spent much of the weekend telling television viewers that his longstanding preference for a 1992 poll was as valid as ever. His theme was that if the promise of economic recovery had brought such a strong revival in Tory fortunes why not wait for the reality to reinforce the trend during the next six months?

It is a judgment shared by many in the most senior ranks of the cabinet, notably Mr Norman Lamont, the chancellor. One of Mr Major's close confidants could point yesterday only to Mr Kenneth Baker, the Home Secretary, as an enthusiast for November.

Yet there is no doubt that the mood of optimism among the voters which has reversed Labour's lead in the polls has also begun to infect the Cabinet.

Six weeks ago one senior minister gave odds of 100 to 1 against an election this year. Yesterday the most he would say was that a November poll was "not probable, not at all probable — but possible".

Conservative Central Office has dusted off its contingency plans to transform the publicity campaign which opens this week — long-planned as a precursor to the party conferences — into a full-scale election battle plan.

Ministers have been as surprised as anyone at the speed of the turnaround since July. They thought then that the summer lull in politics might add the traditional two or three points to the government's standing, leaving it neck-and-neck with Labour.

It has already been studied closely by an independent committee under Professor Raymond Plant of Southampton University charged by Mr Kinnock with studying the implications of electoral reform.

Recent headlines have tended to focus on the personal



Faces from the past: Harold Wilson, left, moved too early in 1970, while premier James Callaghan delayed in 1978

lead that Mr Major has established over Mr Neil Kinnock, the Labour leader, in the ratings, but the most surprising, and encouraging, signs for the government have come from the poll evidence on the economy.

The NOP survey published in the Independent on Sunday on September 8 gave the clearest indication of the trend. Voters said they had become markedly more optimistic about the outlook for their financial position over the next year.

As importantly, the number who thought that the Conservatives rather than Labour

Mr Patten will be telling Mr Major that unless the gap with Labour widens significantly over coming weeks — and Tory support moves from its present level of between 40 per cent and 42 per cent to 44 to 45 per cent — history could well repeat itself.

The gloss of the prime minister's recent globe-trotting could easily fade during an election campaign fought on domestic issues.

With unemployment still climbing sharply it is uncertain for how long the voters will be content with the promise rather than the reality of economic recovery.

Mr Major might yet be punished for the recession and the poll tax. Mr Paddy Ashdown's newly-confident Liberal Democrats could steal vital votes from the Tories in the South.

But there are risks also in delay as Mr Major must have learnt in 1979, the year he first entered parliament. The then Mr James Callaghan had considered an election the previous autumn, but had first dithered and then delayed. The unforeseen — the winter of discontent — drove him from office.

As he looks ahead over the next six months, the prime minister must wonder whether Europe, the poll tax, rising unemployment or simply something he has not thought of might hand the initiative back to Labour. He has already voiced some regrets about not risking an election back in the early summer. He is impatient for his own mandate from the voters.

Of course the fog could clear over the next few weeks. If the Conservative lead in the polls has edged down by the time of Labour's conference in Brighton in the first week of October all talk of a 1991 election will again evaporate. If on the other hand the gap has widened to eight or 10 points, then Mr Major might find it impossible to delay, even if he wanted to.

It is if the polls stay as they are — or perhaps add another point or two to the Tory lead — that his dilemma will become excruciating.

The odds are still that in those circumstances he will wait. But either way he will find little solace in the history books.

Opposition seeks to dent Tory optimism

By Ralph Atkins

THE OPPOSITION Labour Party will today argue that a real economic recovery in Britain will only come when unemployment falls, as the party increases its drive to return the political agenda to domestic policy.

Following Labour's slide in weekend opinion polls Mr Neil Kinnock, party leader, and Mr John Smith, opposition spokesman on economics, will seek to puncture Conservative optimism over the economy and again call for a November general election. A full recovery may not materialise until 1993, they will argue.

Mr Smith said yesterday that speculation over the election date was disrupting the economy. Mr Roy Hattersley, deputy leader, said he was becoming increasingly persuaded of the case for fixed term parliaments because of the uncertainty speculation created.

Party strategists are relying increasingly on a switch of attention to domestic issues to revive the party's standing in opinion polls — a message likely to be reinforced when the "shadow cabinet" meets tomorrow for the first time since before the summer.

Mr Smith said speculation over election dates "doesn't help the management of the economy, or the proper ordering of our affairs. So if the Conservatives are so confident about it, I think they should have the election now."

Mr Smith's speech today will set out Labour's definition of what a "real" economic recovery would mean. Recovery must imply a return to the position before the recession began, for example by sustaining a trend in the annual growth rate of about 2½ per cent.

"Real recovery is at the very least when the level of unemployment begins to fall. And real recovery is only durable when levels of investment, particularly in manufacturing, start climbing again," he will say.

Citing forecasts he will argue, "it is quite clear that a full recovery from the recession would be far from secure even by the end of 1992."

Think tank adds to pressure on Labour for voting reform

By Philip Stephens, Political Editor

PRESSURE on the Labour party to include abolition of the first-past-the-post voting system in its plans for constitutional reform will intensify today with the publication of a report by an influential think tank.

The left-of-centre Institute for Public Policy Research calls in its report for a fundamental shift in the balance of political power in Britain, with a written constitution replacing parliament as the ultimate source of authority.

Its call, which will be reinforced at a conference in London later this week, coincides with moves in the Labour party to ensure that the debate on electoral reform is a central part of its conference in Brighton next month.

With Mr Neil Kinnock, the Labour leader, again trailing in the opinion polls, advocates among his senior colleagues of a move to embrace proportional representation are confident that their case can no longer be brushed aside. Mr Robin Cook, the shadow health spokesman, has already claimed that a commitment to electoral reform by Labour is now only a matter of time.

The Institute, many of whose leading figures have close associations with the Labour party, sets out its list of radical reforms in what it calls a draft constitution running to 129 articles and six schedules.

Apart from its calls for an end to the supremacy of parliament and for the abolition of the royal prerogative, it demands a bill of rights, an elected second chamber to replace the House of Lords, and the introduction of fixed-term parliaments.

The constitution envisages the devolution of political power to elected assemblies in Scotland, Wales, Northern Ireland and 12 English regions. But it is the call for the replacement of the current system for voting MPs into the House of Commons by the additional member system that will attract most interest in Labour ranks. It will increase the pressure on Mr Kinnock to adopt a more radical stance on reform, perhaps by promising a form of constitutional conference immediately after the general election.

The additional member system, a hybrid that assigns some votes to parties and some to individual constituencies, would allow the House of Commons to maintain close links between MPs and their constituencies, but would distribute seats much more proportionately to the number of votes cast for each party.

It has already been studied closely by an independent committee under Professor Raymond Plant of Southampton University charged by Mr Kinnock with studying the implications of electoral reform.

Recent headlines have tended to focus on the personal

lead that Mr Major has established over Mr Neil Kinnock, the Labour leader, in the ratings, but the most surprising, and encouraging, signs for the government have come from the poll evidence on the economy.

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As importantly, the number who thought that the Conservatives rather than Labour

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UK NEWS

Lesson from France for English inner cities

William Dawkins reports on how violence across the Channel has parallels with disturbances at home

THE latest wave of rioting in English cities has strong echoes in France, where the government has been wrestling with an increase in urban violence over the past year.

It has responded by extending central control over local authority finance and housing in a partial reversal of the decentralisation of the past decade.

All this makes an interesting parallel to the erosion of the powers of UK councils when Mrs Margaret Thatcher was prime minister, although the reason for centralisation in France is that the government there is worried about local councils' inability to prevent such outbreaks. The government has also stepped up police numbers in the most sensitive areas, with an emphasis on UK-style pavement patrols, and has provided more training and leisure activities for the poorest suburban housing estates.

It may be thanks to the urgency with which the government has tackled the problem that France has come through its summer holiday without the outbreaks that many were expecting after an outbreak of riots in the spring.

But nobody is betting that the problem has been cracked. Unemployment is at 9.4 per cent and rising - and higher in the worst-off suburbs - and racial tensions continue to simmer in a country with 3.6m resident foreigners and growing concern over illegal immigration.

The riot that sparked the government's concern took place just over a year ago at Vaulx-en-Velin, a housing estate near Lyons, when teenagers burned down a shopping centre after a young motorist was killed in a crash with a police car. What was so worrying was that Vaulx-en-Velin, listed as one of the 400 dangerously poor suburbs with higher-than-average unemployment and immigration, had just undergone a much publicised facelift designed to soothe its social ills.

In the ensuing re-think, the government appointed Mr Michel Delebarre as France's first minister of cities, charged



Looking for trouble: a rioter on the streets of Paris, where the government has been seeking answers to the violence

with improving the co-ordination of the FF4bn (£40m) the state spends annually on urban problems. He also tabled two laws, which received parliamentary approval in the spring, extending central government intervention in urban policy.

The first law shifts FF900m of local tax income from rich areas to poor ones this year, rising to FF1.5bn in 1993, to ensure that the poorest areas do not get poorer. The other scheme, nicknamed the anti-ghetto law, obliges all towns above a certain size to make available a fifth of their housing for poor families or pay central government to do so.

That is recognition of the need to integrate housing, in contrast to the islands of tower-block development that France and the UK built in the 1950s and 1960s.

Yet trouble broke out again last March, when youths clashed with police in Sartrouville, a district of one of the five new towns encircling Paris, after a young Arab was

shot by a supermarket night guard. A month later, a wave of burning and looting swept Mantes-la-Jolie, another of Paris's satellite new towns.

That violence was more worrying, because Mantes-la-Jolie produced the first suburban outbreak in recent memory to happen without a clear trigger.

Ironically, the French government showed off the town as a triumph of urban planning to a visiting UK minister only last year. Its mayor, Mr Paul Picard, happens to be Mr Delebarre's special adviser.

The events at Mantes-la-Jolie

in favour of dealing harshly with those responsible for the riots.

He said: "That is one of the reasons I desperately regret there have been so few arrests in Newcastle. All the police have done, and been able to do, is to contain it. I would like to see those ring-leaders in court on Monday and sentenced very severely."

prompted Mr Delebarre's team to come up with another urban package in what turned out to be a successful attempt to avoid another round of violence as temperatures and tensions rose through the summer.

The aim was to reinforce local police in vulnerable areas during the summer months and set up foot patrols in 40 high-risk suburbs by next year to improve community policing.

The state also increased subsidies to local authorities for youth training, pledged to build 500 sports areas in the

next year and launched a programme for 4,000 young people from the cities to take summer farming jobs.

The call by British police for reinstatement of the Riot Act strikes another echo in France, where the police have a similar law at their disposal.

French police can call a halt to a demonstration or disturbance, after which anyone who remains on the street can legally be arrested, as laid out in Britain's former Riot Act.

However, the French police need the permission of the local *prefet*, the state's representative in the *département*, or local district, before doing so. In any case, causing a disturbance is an offence.

A common complaint, in the French suburbs at least, is that the police have too much latitude and not enough staff.

The Interior Ministry replies that it is satisfied with the powers available to its police force and that no legal changes are envisaged.

THE SPATE of thefts of high-performance cars, highlighted by recent joyriding incidents, has led insurers to raise premiums for owners of such cars by up to 80 per cent, Philip Cogan writes.

Norwich Union, the UK's largest motor insurer, plans to increase premiums for all motorists by a minimum of 20 per cent from October 1.

However, Mr Peter Woolterton, the company's assistant general manager, says that "our statistics show that certain sports saloons, 'hot hatches' and other high-performance cars have particularly bad claims records and are prime targets for car thieves."

"From now on their owners will have to pay their fair share."

The increases will be greatest in areas with bad claims statistics. For example, a 30-year-old motorist in Luton with a Peugeot 205 GTI will pay £955 for comprehensive cover with a maximum no-claims discount, an increase of 74 per cent on the current premium of £545.

The same motorist driving a Ford Escort LX 1.4 in Gloucester will pay just £368. Most policyholders will also have to pay the first £100 of any theft claim unless the car was in a locked garage at the time of the theft.

Other insurers have imposed similar thresholds, and Royal Insurance, for example, will not insure against thefts which are left on the streets at night in certain "high-risk" areas.

Last year, Norwich Union paid out £323m in private car claims. Theft cost the insurance group £48m in 1990, up 65 per cent on the previous year.

A number of insurance groups are increasing premiums. Eagle Star is raising premiums by 9.1 per cent on October 1, after an 8.5 per cent increase in July.

General Accident has pushed up premiums by around 25 per cent over the past year. Royal Insurance has just increased premiums by 10 per cent, following a 9 per cent rise in April.

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The holders of the above mentioned Bonds issued by Crédit Local de France are called to a General Meeting to be held at Tour Cristal, 7-11 Quai André Citroën, 75015 Paris on 1st October 1991 at 11 am in order to consider the following agenda:

- Reference to the Bondholders about the amendment of the article 2 of the by-laws of the Company in compliance with the French law n° 88-537 of 24th July 1986 and particularly its article 313. The foreseeable amendment will extend the corporate object of Crédit Local de France to the financing of the public equipments and will incorporate its ability to issue Bonds.

- Decision on the method of recording the documents of the General Meeting

To permit the Bondholders to attend or to be represented at this meeting, the Bonds or their deposit receipts must be deposited at least five days before the date fixed for the meeting, at the offices of the banks having participated in the placing of these Bonds and from whom proxies or admission cards can be requested.

The President of the Directors

REPUBLIC OF POLAND

Ministry of Privatisation

INVITATION TO NEGOTIATE

The Ministry of Ownership Changes acting on behalf of the State Treasury in accordance with art. 23 of State Enterprises Privatisation Act (the "Privatisation Act") hereby issues an invitation to negotiate to all suitably qualified parties interested in acquisition of up to 50% of shares of Glassworks "IRENA" SA in Inowroclaw.

Glassworks "IRENA" SA is a producer of crystal and sodic glass articles located in Inowroclaw (about 40km West of the city of Torun).

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tel: 49-34-58 or 48-95-32

tx: 82-50-42

fax: (048-22)49-85-69 or

(048)3912-11-23

All responses to this invitation to negotiate must be sent via registered mail and received no later than October 16, 1991 to PRO-INVEST INTERNATIONAL, LTD. acting as a Transaction Manager on behalf of the Ministry of Ownership Changes at the above mentioned address. Ministry of Ownership Changes reserves itself the rights not to choose any of the offers as well as to retain a part of shares offered for sale.

NOTICE TO HOLDERS OF WARRANTS

NICHIAS CORPORATION

U.S. \$100,000,000 3 1/2 PER CENT.

GUARANTEED NOTES 1993 WITH WARRANTS

Pursuant to Clauses 3 and 4 of the Instrument dated 1st November, 1989, the following notice is hereby given.

At the meeting of the Board of Directors of Nichias Corporation (the "Company") held on 2nd September, 1991, a resolution was adopted for the stock split, particulars of which are given below.

Consequently, the Subscription Price of the captioned Warrants (the "Warrants") shall be adjusted, as specifically provided in paragraph 2, below.

1. The stock split will be made on 1st November, 1991 to shareholders of record as of 30th September, 1991 (Japan time), at a ratio of 1.1 share for each share held. The dividends for these new shares will accrue as from 1st October, 1991.

2. Pursuant to Clause 3(i) of the Instrument, the Subscription Price will be adjusted from Yen 1,784 to Yen 1,821.80 per share of the Company's common stock. The new Subscription Price will become effective on 1st October, 1991, which is immediately after the record date.

NICHIAS CORPORATION

1-26 Shibadain 1-chome

Minatoku, Tokyo, Japan

Dated: 16th September, 1991

To the Holders of

Restructured Obligations Backed

by Senior Assets, S.V.

Pursuant to the Indenture dated

May 1, 1990, as amended and re-

stated as of June 15, 1990, between

the Issuer and State Street Bank

and Trust Company, as Trustee,

notice is hereby given that for the

Interest Accrual Period September

10, 1991 to December 9, 1991, the

rates applicable to the Secured

Senior Floating Rate Notes and

Secured Senior Subordinated Floating

Rate Notes are 6.0500% and

6.5000%, respectively.

BIRMINGHAM

The FT proposes to publish this

survey on

18th October, 1991

from its printing centre in

Tokyo, New York, Frankfurt,

Paris and London. It will be read

by senior businessmen and gov-

ernment officials in 160 countries

world-wide. If you want to reach

this important audience, call

Anthony Hayes 021 454 0921 or

fax 021 455 0889. Or write to him

at Financial Times, George

House, George Road, Edgemon-

ton, Birmingham, B15 1PG.

FT SURVEYS

Banks see fall in status of London

By Robert Peston

LONDON'S pre-eminence as a European financial centre will soon be eroded by Frankfurt, Paris and Berlin, according to a survey by the London Chamber of Commerce of foreign banks operating in the capital. The central cities are likely to benefit from their proximity to eastern Europe, according to the survey. Also seen to be in their favour is that their regulatory regimes are likely to become closer to London's as a result of European Community directives.

Respondents said London's weaknesses were its lack of an integrated policy-making body for the capital, its poor transport network and unattractive quality of life for workers.

The chamber said that the creation of a strategic body with "some teeth" was seen as fundamental to the capital's ability to maintain business and to attract investment.

The survey, of 109 banks employing 32,000 people in the UK, predicts that London's financial-services industry will continue to grow in absolute terms, if more slowly than in some other European cities.

Aggregate interest charge for Manchester businesses up 41%

By Ian Hamilton Fazey, Northern Correspondent

TOTAL INTEREST CHARGES paid by the 100 largest businesses in Manchester rose last year by 41 per cent, according to an analysis of company results to be published today by the Manchester corporate accounts department of KPMG. Peat Marwick McLintock, the accountancy firm.

The aggregate figures were £941m last year and £596m in 1989, and the change almost matches the drop in the companies' total pre-tax profits, which fell by £31m to £1.82bn last year from £2.06bn in 1989.

The results are based on figures issued by companies at their year ends. The businesses include 30 quoted companies based locally, 24 with owners elsewhere in the UK, 30 with overseas owners and 16 unquoted ones including the Swinton insurance group and the Co-operative Wholesale Society.

Their results will be published for the first time today in the form of a company report, and annual reports will follow.

The businesses have been ranked by turnover, which totalled more than £24.6bn.

That rose 8.4 per cent last year from nearly £22.6bn in 1989. Operating profits fell from a total of £1.83bn in 1989 to £1.76bn last year as a result of a growing squeeze on margins. The analysts say, however, that inflationary pay rises were not to blame. Pay rises averaged only 5 per cent, so it was rises in other costs that depressed margins.

Peat Marwick says that rising interest charges caused extra pain because borrowings to fund investment had risen to record levels of nearly £1.20bn last year compared with £1.15bn in 1989. The combination of eroded profits and the rising cost of money cut interest cover - the ratio which indicates how many times profits will cover interest charges - from 4.4 times in 1989 to 3.3 times last year.

Liquidity deteriorated, as shown by a decline from 1.3 to 1.2 in the ratio of current assets to current liabilities, but that figure would have been worse if more debt had been short-term.

Improved stock turnover - 8.4 times last year from 8.2 times in 1989 - suggests reduc-

tions in stock levels. But average customer-indebtedness increased slightly from 102 days to 104 days as customers stretched payments to finance working capital. Peat Marwick says the health of business in Manchester will suffer if this later payment of debts becomes a long-term trend.

Although current liabilities rose by 18 per cent, trade creditors increased by only 9 per cent, indicating a tightening of credit terms all round. That was translated into increased dependence on short-term loans, which rose by 42 per cent to exceed £2.6bn.

Indeed, Manchester dependence on debt resulted in a reduction in equity gearing from 45 per cent in 1989 to 43 per cent last year, with long-term loans increasing by a third in two years. The companies' individual efforts to reverse this trend have been evident this year in the wide-spread rash of rights issues to swap debt for equity, as well as in unbundling and sale of non-core business segments.

Manchester plc KPMG Peat Marwick McLintock, Tib Lane, Manchester.

Venture funds resume investment search

By Ian Hamilton Fazey

SOME regional managers of venture capital funds - whose activities are often an early pointer to economic trends - are beginning to look again for high-risk investments in businesses such as housebuilding, which fluctuate with the economic cycle.

Such "cyclical" businesses can be bought for seven times earnings or less. Mr Charles Richardson, director for northern England and Scotland with 3i, the venture capital group, said similar businesses cost 15 times earnings or more before the recession.

"Timing is everything in investment activity," Mr Richardson said. "Now is the time to be bold."

Fund managers say they believe the recession is over and that it is time to buy cheaply into small, well-managed engineering and construction enterprises, as well as into fitted-kitchen and other home-improvement businesses which will grow quickly as the economy recovers.

Funds now searching for investments tend to operate in regions which have been least affected by the recession, such as northern England. Most

investments are expected to involve either management buy-outs of subsidiary companies from groups without the funds to expand them, or support for experienced managers hoping to buy their way into struggling companies.

Mr Geoff Burns, a director of the Glasgow-based Murray Johnstone financial services group, described the main obstacle now faced by fund managers as "basic human fear".

"We are ready to back promising cyclical businesses," he explained. However, "three years ago, anyone launching a management buy-out where the parent refused the offer didn't worry about the sack - because they could walk straight into another job. Now jobs are scarcer, people are worried about the sack."

Mr Richardson said that 3i's northern offices were also looking for strong, managed start-ups. 3i's experimental northern scheme to support small growing businesses with venture capital sums under £100,000 as an alternative to bank loans has had a quiet summer. Inquiries have now picked up strongly, however.



NOTICE INVITING BIDS FOR THE FOURTH ROUND OF EXPLORATION FOR OIL AND NATURAL GAS IN INDIA 1991

The Government of India invites bids from companies to explore for oil and natural gas in 72 blocks - 39 offshore and 33 onshore. Companies may bid for one or more blocks, singly or in association with other companies.

CONTRACT TERMS

- The contract will be in the form of production sharing with
- No signature or production bonus
- No royalty payment
- No minimum expenditure commitment
- Profit oil and profit gas share based on post tax rates of return or multiples of investment recovered
- No ring fencing of blocks for corporate tax purposes
- Suitable provisions for production and pricing of gas
- Purchase of company's share of oil at international market price
- Provision for assignment.

Companies would be required to bid for:

- Profit oil and profit gas shares expected by them at various levels of rate of return or multiples of investment recovered
- Percentage of annual production expected to be allocated towards cost recovery
- Total length of exploration period, number of phases in exploration period and minimum work commitment in each of the phases.

Companies interested in purchase of information dockets and data packages and in obtaining further information may contact:

Mr. R.N. Desai,
Head, EXCOM Group,
Oil and Natural Gas Commission,
7th Floor, Bank of Baroda Building,
Parliament Street, New Delhi-110 001, INDIA
Telephone : 3715291, Telex : 031-65184, 031-66262, Facsimile : 3316413

Availability of Data

An information docket on each basin has been prepared. It will contain information on regional and local geology and the current status of exploratory activities in the blocks in each basin. Each docket is available at a cost of US\$ 2500. Data packages containing seismic sections, gravity and magnetic anomaly maps, wireline logs and structure contour maps etc. have been prepared for most of the blocks. The data packages are priced in three slabs at US\$ 15000, US\$ 30000 or US\$ 50000 each, depending on the extent of information available for each block.

Companies may purchase either the information dockets or the data packages or both. There is no limit on the number of basins or blocks for which data may be purchased.

PRESENTATION

A presentation of the contract and existing petroleum legislation, applicable fiscal laws, basin review and other relevant information will be made in Delhi, London, Houston and Singapore. Dates for these presentations will be communicated to the companies shortly. Representatives of exploration companies are invited to attend.

Bids should be submitted in sealed envelopes superscribed "Fourth Round of Bids 1991" not later than 29th February, 1992, addressed to:

The Joint Secretary (Exploration),
Ministry of Petroleum & Natural Gas,
2nd Floor, Shastri Bhavan,
Dr. Rajendra Prasad Marg, New Delhi-110 001, INDIA

To the holders of

IMI Bank (International)

1,500,000 warrants to purchase ordinary shares

of Assicurazioni Generali S.p.A.

of

IMI Bank (International)

unconditionally and irrevocably guaranteed by

Istituto Mobiliare Italiano

(the "warrants IMI Bank (International)")

Notice is hereby given to the holders of the warrants IMI Bank (International) pursuant to Condition 5 of the Terms and Conditions of the warrants IMI Bank (International) that, at the extraordinary meeting of shareholders of Assicurazioni Generali S.p.A. held on 1st July, 1991 a resolution was passed authorising, inter alia, an increase of capital from Italian L. 1,000 billion to Italian L. 1,407.5 billion by an issue of 1,407,500,000 additional ordinary shares at the price of Italian L. 12,000 each, to be irrevocably utilised for the purposes of the exercise of 1,407,500,000 warrants (the "warrants Assicurazioni Generali").

A group of financial and other institutions ("Connectors") will subscribe such warrants Assicurazioni Generali and each additional ordinary share.

The warrants Assicurazioni Generali will be issued by the Connectors to the shareholders of Assicurazioni Generali S.p.A. at the price of Italian L. 6,000 each in the ratio of one warrant Assicurazioni Generali to four ordinary shares, pursuant to art. 2465 of the Italian civil code.

Each warrant Assicurazioni Generali will entitle each holder thereof to purchase one additional ordinary share of Assicurazioni Generali S.p.A. at the price of Italian L. 6,000 if the warrant Assicurazioni Generali is exercised in accordance with its provisions from the Connectors. In this case the exercising holder of warrants Assicurazioni Generali shall be entitled to all rights according to the "statute" of Assicurazioni Generali.

Ordinary shares purchased by him from 1st January 1991.

Connectors for the time being the exercise, including the price of the additional ordinary shares, will be determined by the "Regolamento del Warrant Assicurazioni Generali 1991 - 2001" (the "Regolamento").

The warrants Assicurazioni Generali are in the form of bearer certificates and are transferable from day to day and are issued by the Connectors to 30th April 2001 (subject to the provisions of art. 9 of the "Regolamento").

Applications will be made by Assicurazioni Generali S.p.A. to list the warrants Assicurazioni Generali on the Italian Stock Exchanges where the ordinary shares of Assicurazioni Generali S.p.A. are currently listed.

The information included in this notice is based partly on information publicly available and partly on the terms and conditions of the "Regolamento". Neither IMI Bank (International) nor Istituto Mobiliare Italiano accept responsibility in respect of such information. The holders of the warrants IMI Bank (International) are invited to inform themselves about all the terms and conditions of the "Regolamento". Copies of the "Regolamento" are currently available in Italian at the regional office of Assicurazioni Generali S.p.A. Piazza Duse 2, 20121 Milano, Italy.

A further notice will be published once Assicurazioni Generali S.p.A. has issued the additional ordinary shares and the warrants Assicurazioni Generali, and the exercise price of the warrants IMI Bank (International) has been subsequently adjusted.

September 11, 1991
By: Morgan Guaranty Trust Company of New York
Bremen Office, at warrant Agent.

MANAGEMENT

Of the many aspects of Japan that bewilder foreign businessmen, few are more mysterious and intimidating than dealing with the press in general and the Nihon Keizai Shimbun in particular.

The "Nikkei", as it is universally known, is the sole business daily newspaper in Japan, having roughly the same position and prestige in its home market as has the Financial Times in the UK or the Wall Street Journal in the US. It is, therefore, a vital medium for any businessman in Japan.

Dealing successfully with the media is generally recognised as a subtle skill, and most large companies employ professional public relations people to advise them. But senior managers still like to retain a large say on how their company presents itself.

This process does not work for foreign businesses in Japan, mainly because the media, published in Japanese, are inaccessible to the typical expatriate manager. Not only can he not himself judge how best to approach them, he is also poorly placed to assess the advice he receives from public relations professionals.

The problem is intensified by some practices of the Japanese media which may seem strange and threatening to foreign business. Indeed, in the not too distant past, most Japanese media, like most Japanese organisations, were systematically hostile to foreign interests, and xenophobia lingers in some quarters.

In the mid-1980s, when foreign financial institutions were fighting for nothing more than the opportunity to do business in Japan on a similar basis with their Japanese competitors, it sometimes seemed as if the media – and, in particular, Nikkei – were little more than the cheering section for the protectionist home side.

More than one foreign businessman has had the dismaying experience of seeing sensitive internal data given to the Japanese Ministry of Finance in confidence appear later in the Nikkei in a less than flattering context.

The Japanese media, Nikkei included, also intimidate in much the same way as Japanese industrial companies do – by the sheer number and aggressiveness of their troops. Before going to Japan, US and European businessmen probably do not experience being approached three or four times a week by journalists from different departments of the same newspaper, all of them on rather unfocused but relentless and comprehensive fishing expeditions. And they probably have never been disturbed at home in the evening by a knock at the door by a journalist wanting to discuss their company's problems. At Nikkei and other Japanese media, these are the normal, everyday methods of digging out news.

Is all this part of the great Japanese conspiracy to dominate the world? After spending four weeks inside Nikkei this spring, I am confident that it



A word of advice about bowing to the inevitable

Ian Rodger on the mystique of dealing with the Japanese press

is not. Do foreign businessmen have a hope of getting a full and fair hearing from Nikkei? Yes, increasingly so, subject to the unfortunate tendency of journalists there, as in most countries, to favour the home side in a pinch.

Nihon Keizai Shimbun Inc has been a totally independent, private, joint stock company for over 100 years. Only employees are allowed to own shares. When an employee retires, he has to sell his shares back to the company treasury at par value, and the directors then offer them to other employees at par value.

In addition to the flagship Nihon Keizai Shimbun (Japan Economic Daily), the company publishes three other specialised business newspapers in Japanese, the Nikkei Weekly (formerly called the Japan Economic Journal) in English, plus various magazines, directories and books. It operates a real-time electronic financial markets information service in Japanese and English as well as a huge economic and financial database in both languages. It also owns a network of television stations in Japan. The flagship paper has a circulation of over 3m copies per day, compared with the FT's 300,000.

Nikkei reported pre-tax profits of ¥21.3bn (\$93.01m) on revenues of ¥241.3bn in 1990. The group's policy after the second world war, mirroring that of Japanese industry in general, has been to promote fast growth rather than high profits. This policy has, of course, been facilitated by the absence of external shareholders demanding better profit performance,

but it has also been extremely successful. Group revenues doubled between 1977 and 1986 and doubled again between 1986 and 1990.

The most striking feature of Nikkei's editorial department is its size (some 1,300 journalists), compared with the FT's 350. The hyper-competitive environment of Japan's media industry forces all major players – and Nikkei is certainly one of them – to spare no effort in digging out exclusive stories.

The typical Nikkei journalist also faces an endless succession of deadlines through the day – for the group's electronic news services and, in some cases, its specialised papers as well as the morning and evening editions of the main paper.

That, incidentally, is one reason why he often seems to behave like a vacuum cleaner, sucking up every bit of information he can glean. Even if he may not get an exclusive story for the main paper from an interview, he can usually get something to submit to at least one of the group's outlets.

The lessons for the foreign businessman – and some have learned them well in recent years – are many. For one, you have to devote to Nikkei journalists the same levels of time and energy that they are ready to give to you.

You probably have to take them into your confidence more than you would other journalists, but they will be responsive. You may suspect that what you tell a Nikkei journalist is going to be transmitted to your com-

petitors and relevant government officials, and you are probably right.

But don't be shy or offended. Feel free to retaliate and pick his brains for his assessments, which will probably be acute, of what your competitors are up to and how the winds are blowing in MITI or MoF. Japanese still look on this sort of exchange of confidential information between people who are obligated to each other as normal, although values are changing and it may soon come to be considered as unethical as it is in the West.

It is thus frustrating that, just as you have got to know and trust a Nikkei journalist, he is transferred to a different section. They jobs rotate, on average, every two years. You have no choice but to get to know the successor. The advantage is that you can quite quickly accumulate a large number of Nikkei contacts spread throughout the editorial department.

Nikkei journalists are, in general, very young. They start straight out of university in their early 20s, and most are forced to give up reporting and take up desk-bound editing jobs in their early 30s. They are inclined, like most young people, to be brash, eager to make a mark and not too interested in the less sensational subtleties of an issue you may be trying patiently to explain to them. But, unless your grievance is a solid one, don't bother appealing to a higher authority.

Senior executives of some of the biggest companies in Japan admit that even they cannot pick up the phone and ask Nikkei's president or editor to stifle a reporter's story.

Similarly, Japanese companies also

feel unable to resist pressure to allow Nikkei the opportunity to write about their developments before announcing them to other media. This is plainly unfair to competing media. But companies know that Nikkei is inclined to give generous coverage to exclusive stories, and very short shrift to press releases.

It has virtually become accepted practice that big company announcements appear in Nikkei in the form of a "leak" a day or two before the formal announcement is made. Foreign companies ignore this custom at their peril.

Whatever efforts the foreign businessman makes, there is no guarantee that his company will be treated with fairness consistently. Nikkei has long been officially committed to liberalisation of industrial and financial markets in Japan, but it is also part of the society in which it operates.

It may be financially and managerially independent but, for a long time, it preferred the comfort of sticking close to the self-serving establishment consensus to the stress of standing up for unpopular principles.

Only in the past few years has it become strident, not only in its editorial comments but also in its news coverage. In criticising protectionists of any stripe that remain in the country, Nikkei journalists are now expected to give a fair hearing to foreign viewpoints and, by and large, they do.

But journalism is a strange business. Senior writers and editors may well have a clear policy, but the junior reporters who are actually covering the stories may see things in a different way, and, because of time pressures, can often slip their biases and prejudices past their bosses.

At the moment, there is an anti-American streak among many young Japanese business and political reporters. They are cocky about Japan's economic success and look on Americans as lazy whingers. Nikkei editors are appalled by this simplistic view, but they admit to problems keeping it out of their papers.

Nikkei is, in many ways, a paradigm of Japan. For most of the period after the second world war, its only internal policy was to grow, its only editorial policy was to support anything that contributed to the country's economic growth. The consensus within Japanese society on this stance was nearly total, making news judgment simple. Today, the consensus is breaking down, as external interests and issues force themselves onto Japan's agenda.

Meanwhile, Nikkei has, especially in its electronic media, extended its reach around the globe, making it much more important that its reporting and analysis is consistently fair and accurate. The group's editors are well aware of these new challenges and are rising to them with predictable vigour. The result is that their newspapers are getting better and better. They are also getting easier for the foreign businessman to deal with.

Declarations put into practice

Diane Summers on equality of recruitment

The simple declaration in job advertisements and recruitment literature that an organisation is an "equal opportunities employer" is still seen by many as sufficient, somehow, to make the equality actually happen.

The point has been taken up this week by the Commission for Racial Equality with the publication of its latest best practice guide to monitoring and achieving racial equality in employment. Many of the principles explored in the guide can be applied equally to the issue of sexual equality.

The CRE's main argument is that, once an organisation has accepted that it must have an effective equal opportunities programme, monitoring is the only way of finding out whether the policies are succeeding in practice.

Says Mary Coussey, director of the commission's employment division: "Monitoring is essential to an equal opportunity policy and for the effective use of scarce human resources. And just as the use of targets is a feature of business plans, so equality targets are a statement of what progress to expect and to work for."

The words "monitoring" and "targets", particularly when associated with issues of race and sex, persist in having negative connotations for many employers.

The CRE, recognising this, has also published a companion booklet which aims to counter some of the most frequently made objections to the idea of keeping a records of ethnic origin.

The commission points to a Policy Studies Institute finding that as many as a third of private-sector employers discriminate directly against Asian and Afro-Caribbean job applicants. Says the CRE: "No major employer can reasonably be satisfied that direct or indirect discrimination is not occurring."

Even where a senior manager, personally, is not discriminating, some of his or her employees may be operating their own informal racial barriers against ethnic minorities.

On a practical level, the CRE provides in its best practice booklet a step-by-step guide to the collection and analysis of

ethnic origin data. It takes in: ● Planning and consultation with the workforce on the collection of data. This needs to be carried out at the earliest possible stage to clear up misunderstandings and ensure co-operation.

● Ethnic classification. Collecting information in too broad categories may disguise the greater disadvantage suffered by some subgroups. The CRE suggests a minimum of five ethnic categories for monitoring purposes: white, Afro-Caribbean, Indian, Pakistani/Bangladeshi, and other.

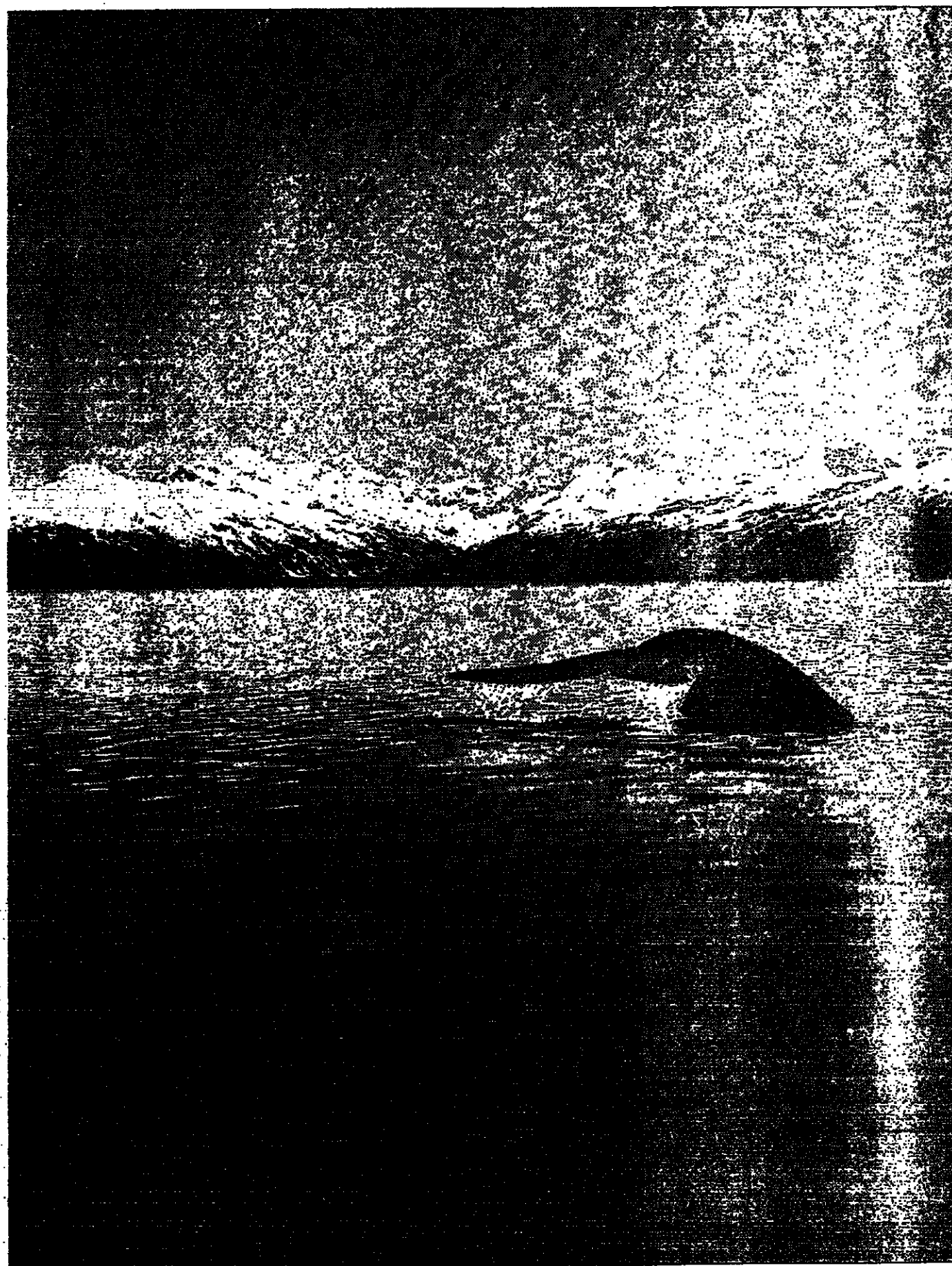
● Data collection on existing workforce. A particular day, week or month should be chosen for data collection. The CRE has found the method that works best is a combination of self-classification – where employees themselves state on a form their ethnic origin – and management "top-up", with supervisors chasing up replies.

● Application forms. All applicants, including those who send CVs or letters, should fill out an application form, so that data can be collected on a consistent basis. Record reasons for rejection at each stage of the selection process and keep all papers on file for about 12 months.

Finally, the CRE emphasises that collecting ethnic origin data is not an end in itself – the information needs to be analysed and reviewed. As a rough rule of thumb, negative replies to two questions, in particular, should prompt remedial action.

First: "Is the proportion of ethnic minority applicants what you would expect when compared with relevant benchmarks and equality targets, or are there major differences between white and ethnic minority groups?" Second: "Are success rates for ethnic minority candidates at least four-fifths of the rate for white candidates?"

"A Measure of Equality: monitoring and achieving racial equality in employment. Price £4.95. Why Keep Ethnic Records? Questions and answers for employers and employees. Price £2. Both available from Lewis Marketing, 73 Lime Walk, Headington, Oxford OX3 7AD. Add 10 per cent for p&p."



The few blue whales remaining alive in the world are no match for the predator who has carelessly eliminated eight hundred species of life from the face of the earth in this century alone: Man.

Like every other creature in the sea, the blue whale requires clean water to live.

The Samsung Group has designed and is currently producing supertankers with a double-hull, double-bottom construction that prevents oil spills.

The vessels, which are being built for major oil companies in the United States and Europe, are proof that technology can make man a protector instead of a predator.

SAMSUNG

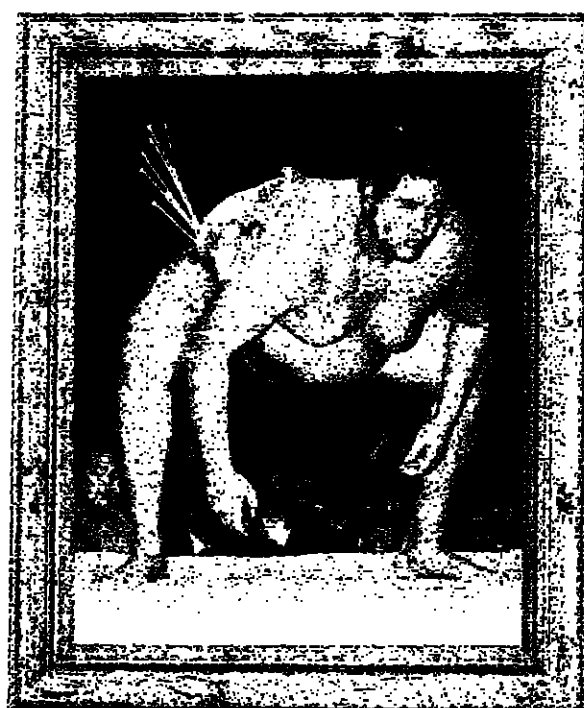
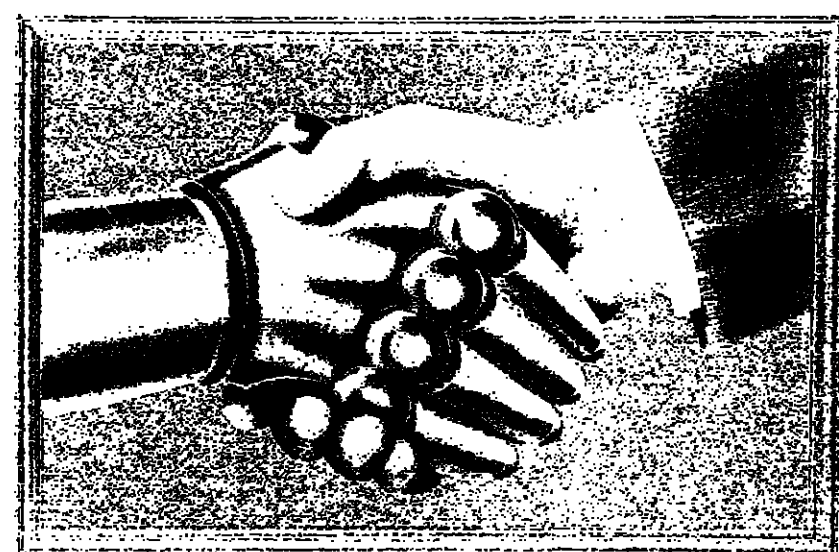
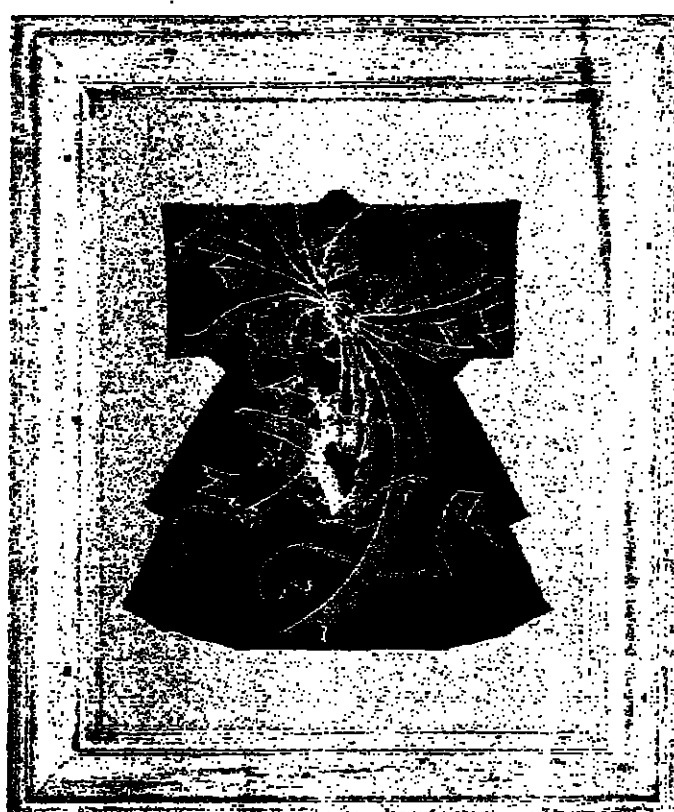
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C.P.O. Box 1580, Seoul, Korea Tel: (02) 724-0394 Fax: (02) 739-5672

THE JAPANESE HAVE MARSHALLED

THEIR ARTS.



From September to January, The Japan Festival is staging the largest celebration of Japanese arts and entertainment events ever seen outside Japan.

And it's a far cry from the hi-fi and high finance which is often all we associate with this surprising and sophisticated nation.

From martial arts to arts and crafts, there are literally hundreds of events on offer all over the country to help you and your family discover the real Japan.

**THE JAPAN FESTIVAL –
PREPARE TO BE ASTONISHED!**

HOW TO SAVE MONEY – BUY A JAPAN PASS

The Japan Pass is just £5, and gives you discounted access to a wide range of Japan Festival events nationwide.

Details of the discounts are given in the Festival brochures.

You can buy your pass at many Festival venues or by ringing the Festival Box Office on

071-413 3310 (24 hours)

The pass will be mailed to you at no extra charge.



CALL THE JAPAN FESTIVAL BOX OFFICE ON 071-413 3310 FOR YOUR PROGRAMME, A MAGAZINE GIVING A FULL LISTING OF ALL EVENTS NATIONWIDE. OVER 100 COLOUR PAGES OF ARTICLES AND INFORMATION ON JAPANESE LIFE AND CULTURE FOR JUST £2.50. (ALSO AVAILABLE AT FESTIVAL VENUES.)

TOYOTA in the UK



Science park

W A BOUTLING has been awarded contracts worth nearly £2m for projects in Newcastle-upon-Tyne and Manchester.

The largest contract is on the city centre Newcastle Science Park, where Boutling will install both mechanical and electrical services in five high-technology three and four-storey office buildings for main contractor A F Budge (Building).

The other project is in a Bank House mill in Trafford Park, Manchester. Under a contract from Robinson Milling Systems, Boutling's Warrington office is designing and installing services, instrumentation and cabling in the newly refurbished mill.

Shopping mall
British specialist cladding and curtain walling company, AVON CLADDING SYSTEMS, has won a £1m contract for the refurbishment of a shopping mall overlooking Lake Lucerne in Switzerland.

Avon will develop the design, fabricate, deliver and fit a new roof and a total of 1,650 sq metres of curtain walling at the 1980s shopping mall in the Schönbühl district of Lucerne.

Business project

SHORELINE DEVELOPMENTS, part of the Shoreline Group, has been awarded phase one of a £750,000 roads and infrastructure project for Mountleigh Group at its Saltash business park.

The 33.5 acre site will offer units for office, light industrial, warehousing and non-food retailing.

CONTRACTS

Sydney airport

Contracts totalling A\$82m (about £88m) have been won by BARCLAY MOWLEM, the Australian subsidiary of John Mowlem Construction.

The largest project won by Barclay Mowlem, worth A\$70m, involves the construction of an apron together with ancillary works for the new terminal extension at Sydney's international airport.

Also in New South Wales the company has been awarded a A\$46m contract to design and build support facilities at Mount Piper power station for the Electricity Commission of New South Wales.

A A\$5m contract has been won in Western Australia for the electrification of the suburban rail services in Perth and a A\$4m contract has been awarded by Australian

National Railways for ballast cleaning and track maintenance between Adelaide and Port Augusta, South Australia.

Various smaller contracts won include an 85.5 metre long bridge over a railway at Flemington, New South Wales (A\$2.7m); a train loading tunnel at Yandicoggin, Western Australia, for BHP Minerals (A\$2.7m); a 725 sq metre vehicle service complex and washdown for the 2nd Cavalry in Darwin, Northern Territory (A\$1.9m) and concrete foundations for an aluminium refinery at Wagga, Western Australia (A\$1.6m).

Five contracts have been won in Papua New Guinea, including 40 houses at the OK Tedi gold and copper mine and an airport terminal building at Port Moresby.

University offices plan

M J GLEESON GROUP has won educational, housing and industrial construction contracts in July and August worth in the region of £11m - the major share going to the northern construction division.

The largest is a £5.18m, 100,000 sq ft four-storey office development around a central courtyard, together with parking for 115 cars, to be built for Sheffield University to house high-technology departments plus private companies operating in complementary areas of business.

In Sheffield Gleeson is to

build 30 dwellings for South Yorkshire Housing Association comprising two-bedroom flats and four-bedroom semi-detached houses in an area of the city where the division is already progressing two other social housing schemes.

Additionally, Gleeson has undertaken a 12-week contract to totally reorganise entry arrangements, improve facilities and fully seat the Leppings Lane end of Sheffield Wednesday FC's Hillsborough stadium. Work is also starting on industrial building works at Drax power station, Selby.

London redevelopment

HIGGS AND HILL SPECIAL CONTRACTS has been awarded a contract by Cockspur Developments for a £5m office development at 14-16 Cockspur Street, London SW1.

The project requires the part demolition of a building with the retention of its front facade and some offices. A part steel frame, part concrete frame office building is to be constructed behind the retained portion of the building which will be clad in brickwork to

match the existing structure. The building will feature a central atrium with two glass backed lifts serving all office areas.

On completion, in mid 1992, the development will provide 43,000 sq ft of high quality office accommodation. It will be air conditioned throughout and will feature slate clad mansard roofs.

The architect is Hunter and Partners and consulting engineer is Waterman Partnership.

APPOINTMENTS

Rolls-Royce posts

The industrial power group of ROLLS-ROYCE is making the following senior management appointments on January 1. Dr Robert Hawley, managing director (operational) of NRI is appointed managing director of that company. All NRI's trading company managing directors will report to Dr Hawley.

Mr Peter Lockton, managing director of NRI's international and projects engineering group, is appointed overseas projects director of the industrial power group.

Mr Andrew Parkins, managing director of NRI's power engineering group, is made managing director of Rolls-Royce Nuclear Engineering.

Mr Peter Twiddle, head of employee relations in the aerospace group, is appointed director of personnel for the industrial power group.

Mr Gerald Gould, managing director of NRI Thompson, will become finance director of Rolls-Royce Nuclear Engineering.

CI GROUP, the Wolverhampton-based steel and engineering group, has appointed Dr Chris Ansipack to the board. He will initially be based at, and responsible for C I's French re-rolling subsidiary Société Métallurgique de Brévilly, located in the Ardennes close to the Belgium border.

The London based EUROPEAN MARKETING CONSULTANTS has appointed Ms Tina Taylor, formerly sales director, to the board as an executive director.

Ms Taylor has been employed by the company since 1987. Before that she worked with Lifeset Software Europe as European marketing manager.

BIOPLAN HOLDINGS, the independent healthcare group, has appointed Mr Bob Nellist as executive chairman. Mr Nellist joined the board earlier this year and was previously finance director with Thorn

EMI and Mecca. Mr Peter Townsend, who founded the company in 1982, has resigned from the board but will continue to assist the company in developing its relationships with health authorities throughout the UK.

J HENRY SCHRODER WAGG has appointed Mr John M. Wertheim as assistant director and financial controller. He was previously vice president and European controller at Bank of America in London.

ML HOLDINGS, the aerospace and electronics group, is making Mr John M. Bryson its group finance director on October 1. He joins ML from Expanet International where he was group finance director.

Reorganisation

The promotion of two senior managers of the Intreprenuer and tenanted management divisions of GRAND METROPOLITAN ESTATES has resulted in an organizational change in the two divisions.

Mr David Grace, currently managing director of Intreprenuer, will be moving to Grand Metropolitan Estates, the managed house division of Grandmet, taking up the position of operations director. Mr Des O'Flanagan, currently tenanted estates director, rejoins Courage as sales director - east. Both appointments are effective from October 1.

As a result of these changes the managing director functions of Intreprenuer and tenanted management will be integrated.

Mr Rodney Mann, a director of LDV (UK), the drinks division of Grandmet, will become managing director of Intreprenuer and tenanted management.

G W THORNTON has appointed Mr Chris Leviston as sales and marketing director of its wholly-owned subsidiary, Thornton Precision Forgings.

FIDELITY PACIFIC FUND S.A.

Incorporated Under The Laws of Panama

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Please take notice that the Annual General Meeting of Shareholders of Fidelity Pacific Fund S.A. (the "Corporation") will take place at 2:30 p.m., at the Corporation's principal office, Pembroke Hall, Pembroke, Bermuda on October 4, 1991.

The following matters are on the agenda for this meeting:

1. Election of the following individuals as Directors:
Edward C. Johnson 3d
Barry R. J. Bateman
Charles T. M. Collis
Charles A. Fraser
H. F. van den Hoven
2. Review of the balance sheet and profit-and-loss statement of the Corporation for the fiscal year ended May 31, 1991.
3. Ratification of actions taken by the Directors since the last Annual General Meeting of Shareholders.
4. Ratification of actions taken by the Investment Manager since the last Annual General Meeting of Shareholders.
5. Consideration of such other business as may properly come before the meeting.

Holders of registered shares may vote by proxy by mailing a form of proxy obtained from the Fund's principal office in Bermuda or from the institutions listed below to the following address:

Fidelity Pacific Fund S.A.
c/o Fidelity International Limited
P.O. Box HM 670
Hamilton HM CX,
BERMUDA

Holders of bearer shares may vote by proxy by obtaining from the institutions listed below a form of bearer shareholders proxy, certificate of deposit and receipt for bearer share certificates, against deposit of their share certificates, and mailing the proxy and certificate of deposit to the Corporation at the address set forth in the preceding paragraph. Alternatively, holders of bearer shares wishing to exercise their rights personally at the meeting may deposit their share certificates, or a certificate of deposit thereof, with the Corporation at Pembroke Hall, Pembroke, Bermuda, against receipt therefor, which receipt will entitle said bearer shareholders to exercise such rights.

Fidelity International Limited
P.O. Box HM 670
Hamilton HM CX,
BERMUDA

Fidelity Investments (C.I.) Limited
40, The Esplanade
St. Helier, Jersey,
CHANNEL ISLANDS

Fidelity Investments International
Oakhill House
130 Tisbury Road
Hildenborough
Kent TN11 9DZ
ENGLAND

All proxies (and certificates of deposit issued to bearer shareholders) must be received by the Corporation not later than 2:00 p.m. on October 4, 1991, in order to be used at the meeting.

Dated: August 23, 1991

BY ORDER OF THE MANAGEMENT
Charles T. M. Collis
Secretary

Fidelity Investments

TRADE FAIRS, EXHIBITIONS & CONFERENCES

SEPTEMBER 23

Life Insurance in Europe: Is it a business? Against a background of rapidly advancing Euro deregulation in Financial Services, banks and insurance companies are seeking up to fight the battle for the life insurance market. Industry leaders in both areas will analyse their chances of success. Contact: Jo Bradley, The Economist Conference Unit on 071 493 6711. LONDON

SEPTEMBER 24-25

SUCCESSFUL ACQUISITIONS & DISPOSALS OF UNQUOTED COMPANIES
The complexities of buying or selling an unquoted company are well covered stage by stage, highlighting the most effective avenues to take throughout the exchange, whilst pursuing the commercial rationale and priorities. Contact: PIREX, Tel: 071 489 9944. Fax: 071 236 6140. LONDON

SEPTEMBER 25

STRATEGIC PLANNING FOR TOTAL QUALITY MANAGEMENT
This two day seminar is a guide to the processes of TQM and is presented by the Department of Trade and Industry as part of the Managing into the 90s programme. Location: Fort Crest, Newcastle upon Tyne. Contact: John Smith, BIS. Telephone: 0727 825 209. Fax: 0727 825 461. NEWCASTLE

SEPTEMBER 26

AFTER THE SOVIET UNION - POLITICAL AND ECONOMIC PROSPECTS
Convened by the Royal Institute of International Affairs, Chatham House, London. Enquiries: RIIA Conferences, Tel: 071 957 5710. LONDON

SEPTEMBER 27

ACTIVITY BASED COSTING
A one-day course at LSE intended for people who wish to consider overhead control. Organisers: Dr Miles Glemmen, Contact: Nicola Minkin, Short Courses Office, LSE. Tel: 071-955 7227. LONDON

SEPTEMBER 30

MALCOLM BALDRIDGE AWARD WORKSHOP
Conducted by Janet Fenn, a Baldrige Examiner. Use Award Criteria and Assessment Process to improve your company. Contact: Susan Fennell, David Hinchings Associates Ltd. Tel: 0344 287112. Fax: 0344 259568. LONDON

OCTOBER 1-2

TOTAL QUALITY USERS' CONVENTION
With presentations and practical workshop sessions from leading Quality companies. Final programme available from Eileen Percival, David Hinchings Associates Ltd. Tel: 0344 287112. Fax: 0344 259568. LONDON

OCTOBER 2

EACING UP TO MONETARY UNION
The practical implications, issues, challenges, risks and opportunities of the Monetary Union of Europe. Clifford Chance, Ernst & Young and the World Street Journal Europe. Contact: Kate Lee. Tel: 0225 442903. LONDON

OCTOBER 3-4

KNOW YOUR COMPETITORS
Competitive Intelligence & Analysis. Café Royal, 68 Regent Street, London. Contact: Patricia Donard, EMP Intelligence Service. Tel: 071 487 5665. Fax: 071 935 1640. LONDON

OCTOBER 7

RIGHTSIZING THE IT FUNCTION
Key issues on defining the scale and shape of the IT function to meet the changing requirements of businesses in the Nineties. Contact: Business Intelligence. Tel: 081 944 1591. Fax: 081 944 0522. LONDON

OCTOBER 7-10

FIRE '91 - The national Conference and Exhibition for the whole fire protection profession. English Riviera Centre, Torquay. Contact: Jane Malcolm - Cox, FMI International Publications Ltd. Tel: 0737 768611. Fax: 0737 761685. TORQUAY

OCTOBER 8

DOING BUSINESS IN ITALY.
A comprehensive guide to corporate strategy. Sponsored by: Coopers & Lybrand, Europe. Covering the strategic legal, M&A, accounting and personnel dimensions when compared to the UK. Contact: PIREX. Tel: 071 489 9944. Fax: 071 236 6140. LONDON

OCTOBER 9

ENERGY FROM WASTE-CLEAN, GREEN & PROFITABLE
CBI Conference Centre. This informative seminar will cover the economic, legislative, and environmental aspects of the disposal of waste for profit and will be invaluable to industrialists, local authorities, generators, suppliers, financiers and environmentalists. For a detailed programme contact: Judith or Jill at The Institute of Energy on 071-580 0008. Fax: 071-580 4420. LONDON

OCTOBER 9

DISTRIBUTION AND THE BOTTOM LINE
How to control distribution costs by: developing the right strategy; contracting out transport route selection; better warehousing techniques; improving labour productivity. Seaside Crown Hotel, Easton, London. Contact: Mandy Parker. Tel: 071 853 3291. Accountancy Courses and Conferences. LONDON

OCTOBER 10

Financial Reporting in the UK. Hotel InterContinental, London. Enquiries: Financial Times Conference Organisation. Tel: 071-925 2323. Fax: 071-925 2125. LONDON

OCTOBER 10-11

Foreign Investment and Privatisation in the USSR
Prospects after the events of August 1991. Enquiries: Contact: Sarah Avies, Legal Studies & Services Limited. Tel: 071 637 4383. LONDON

OCTOBER 11

The Cost Implications of Pay and Benefits in a Changing Public Sector. CIP's Public Finance Foundation and Noble Lowndes Consultants and Actuaries. Rewards for finance personnel in the public and private sectors - the total compensation approach. Room 101, 101-103, 255 Gail Main or Ex 344 Chris Tindler. LONDON

OCTOBER 14

TRUSTEES AND THE DERIVATIVE MARKETS
On November 1st existing trust will become subject to Efficient Portfolio Management (EPM). All trustees and fund managers will have to be aware of EPM and its implications. Speakers from IMRO, SIF and others. Futures and Options World. Tel: 081 330 4311. LONDON

OCTOBER 14

Average Rate Options in the Foreign Exchange Markets.
Pricing techniques, hedging, practical applications for the user, legal aspects and the management perspective. Speakers include: Dr. Desmond Fitzgerald, Director, Head of Arbitrage, Mitsubishi Finance International plc and Mark Yallop, Director & Head of Derivatives, Morgan Grenfell & Co Ltd. Call Gillian Becker (0223) 425250. LONDON

OCTOBER 15

SUCCESSING WITH EXECUTIVE INFORMATION SYSTEMS
A practical guide to the successful development and implementation of EIS. Includes evolutionary development approaches, effective screen presentation and data quality and consistency issues. Contact: Business Intelligence. Tel: 081 944 1591. Fax: 081 944 0522. LONDON

OCTOBER 15-17

The Interactive Multi-media Event.
This is the largest Multimedia Exhibition and Conference in Europe with over 80 exhibitors and 50 speakers. The event will demonstrate the benefits and versatility of multimedia in such areas as retail, banking, finance, publishing, advertising, leisure, education and training. Venue: Exhibition Centre - Hall 2/3. Contact: Cathy Whitaker. Tel: 071 383 3323. LONDON

OCTOBER 15 - NOVEMBER 6

STRATEGIES FOR SURVIVAL
Four 2-day crisis management and communication seminars. For all executives who would benefit from the challenging learning experience of managing real-life business crises - as they happen. Contact: Communication Conferences Phone: 0737 355118. Fax: 0737 375556. BRISTOL, HAYDOCK, LONDON, GLASGOW. LONDON

OCTOBER 17

European Rights & Regulation
A unique conference addressing the issues of TV programming rights, sports rights, cross-media ownership, quotas, license fees, and how they impact the future of cable, satellite and terrestrial TV, pay TV and radio. Hotel Conrad - London. Contact: Kagan World Media. Tel: 071 403 8786. Fax: 071 403 8716. LONDON

OCTOBER 17-18

The European Community's Environmental Auditing Regulation - Seminar & Workshops.
Guest speaker: Bernardo Delgado, DG XI, Commission of the European Communities, who drafted the Regulation. Chairmen: Lord Clinton-Davis. Two sessions followed by intensive workshops. Place Hotel, Buxton. Dedications: Contact: Pamela Shinnell. Tel: 081 576 3367. BUXTON

OCTOBER 21

PAY AND PLAY GOLF SEMINAR
Devoted to overcoming barriers to pay and play golf development. International experts on the golf market, construction and environmental issues, finance, the law and marketing. Contact: British Sports and Allied Industries Federation. Tel: 081 681 1212. Fax: 081 681 0012. LONDON

OCTOBER 21-22

THE FUTURE OF KUWAIT: A STRATEGIC PERSPECTIVE
This two-day Conference, at the Hotel Inter-Continental will involve International Experts, Corporate Executives, Academics and Top Government Officials from Kuwait, Europe, USA, Japan, and the Middle East who will meet to discuss and present a strategic perspective on Kuwait. Contact: Strategic Investment Forum Ltd. Tel: 071 546 9919. Fax: 071 585 1365. LONDON

OCTOBER 21-22

The Retrenchment in Defence Spending and How to Live Through it
As all the major Western countries plan reduction in their defence budgets, this conference focuses on strategies for survival for defence manufacturing companies. Contact: Jo Bradley, The Economist Conference Unit. Tel: 071 493 6711. GLENAGELES, SCOTLAND

OCTOBER 22

DOING BUSINESS IN GERMANY
A comprehensive guide to corporate strategy. Sponsored by: Coopers & Lybrand Europe and Carr, O'Brien & Partners. Covering the strategic legal, M&A, accounting and personnel dimensions when compared to the UK. Contact: PIREX. Tel: 071 489 9944. Fax: 071 236 6140. LONDON

OCTOBER 22

INTERNATIONAL REGULATION OF THE TRANSFER OF STRATEGIC TECHNOLOGY
Convened by the Royal Institute of International Affairs. To be held at The Cair Royal, London. Enquiries: RIIA Conferences. Tel: 071 957 5700. Fax: 071 957 5710. LONDON

OCTOBER 22

COMMERCIALISING THE IT DEPARTMENT
Examines the arguments for and against different forms of commercialisation and explores key factors in successfully making the transition. Contact: Business Intelligence. Tel: 081 944 1591. Fax: 081 944 0532. LONDON

OCTOBER 23

Managed Futures Funds - The role of the trading advisor
Speakers from the SFA, Refco International, Clerical and Medical, John Gower and others. Look at the US experience of CTAs and the potential for development of trading advisors in Europe. Futures and Options World. Tel: 081 330 4311. LONDON

OCTOBER 28-29

4TH ANNUAL PHARMACEUTICAL CONFERENCE 1991
This conference, chaired by Sir Barney Hayhoe, will address topical issues and significant developments affecting the pharmaceutical industry. There will be a keynote address by Virginia Booden, Minister for Health. The Langham Hilton. Contact: Anne McClean, Management Forum. Tel: (0433) 570099. LONDON

OCTOBER 28-29

GOING PUBLIC - TO FLOAT OR NOT TO FLOAT
The pros and cons of going public, factors in deciding whether to float, the stock market mechanism; alternative courses of action for growing companies. CIPFA Training Centre, London. Contact: Mandy Parker. Tel: 071 853 3291. Accountancy Courses and Conferences. LONDON

OCTOBER 30

Activity Based Cost Management: The Direction for Financial Services in the 90s.
CHAUDRON & PARTNERS CONFERENCE
Centre Point, London. Contact: Sandra Aldred, CBI. Tel: 071 579 7400. Fax: 071 497 3646. LONDON

OCTOBER 30

CONDUCTING BUSINESS IN SPAIN
A seminar designed for senior executives responsible for their company's international activities. Aspects covered include legal, banking, financial reporting, taxation, marketing, joint ventures and acquisitions. Forte Crest St James's. Contact: Anne McClean, Management Forum. Tel: (0433) 570099. LONDON

NOVEMBER 11

8th Annual Irish Corporate Finance Conference
Corporate Strategy, 12 November - Treasury Management, Hotel Conrad, Dublin. For further details please contact: Clare Lavery, Business Research International on 071-637 4383. DUBLIN

NOVEMBER 13-14

IST CEPT RADIO CONFERENCE
Organised by the European Radiocommunications office. A NEW FRAMEWORK FOR SPECTRUM MANAGEMENT IN EUROPE. Enquiries: ERO, Islands Brugge 81, 6th Floor, DK-2300 Copenhagen S, Denmark. Tel: (45) 32961819. Fax: (45) 3296113. COPENHAGEN

NOVEMBER 14-15

2ND European SPRINT-EACRO Conference: Technology Co-Operation to Match Global Competition. Examines how better use of technology and research funding can be developed in Europe. Enquiries: Carol Jopling, ERA Technology Ltd. Tel: 44 372 374151. Fax: 44 372 374498. SEVILLE

NOVEMBER 21 & 22

Parkhotel, Schoorbrunn, Vienna. For further details please contact Mary Parker-Jervis, Business Research International on 071-637 4383. VIENNA

NOVEMBER 25 & 26

Frankfurt Intercontinental, Germany. For further details please contact Clare Lavery, Business Research International, on 071-637 4383. FRANKFURT

NOVEMBER 27-29

Looking at the growing importance of opportunities in the Pacific Rim. Speakers from major companies in the region discuss all aspects of trade and investment in this dynamic market. Parallel exhibition. Rory Brown, Mead Bulletin (081) 330 4311. HONG KONG

OCTOBER 16-18

INVESTING IN EUROPEAN MEDIA
A pan-European media conference addressing investment opportunities, financing, and public vs. private market value of European media companies. The St Regis Hotel - New York City. Enquiries: Kagan World Media. Tel: 071 403 8786. Fax: 071 403 8715. NEW YORK CITY

OCTOBER 16-18

INTERNATIONAL TOURISM CONFERENCE - DESTINATION RESORTS - TRENDS AND INNOVATIONS. Essential for promoters investors and managers as well as local government officials who are planning development and investment in the leisure sector. Contact: Mr Marcel Hug, Suter & Suter, Basel, Switzerland. Phone: 4161 275 7575. Fax: 4161 2757474. SOUTH CAROLINA, USA

OCTOBER 16-18

GOING PUBLIC - TO FLOAT OR NOT TO FLOAT
The pros and cons of going public, factors in deciding whether to float, the stock market mechanism; alternative courses of action for growing companies. CIPFA Training Centre, London. Contact: Mandy Parker. Tel: 071 853 3291. Accountancy Courses and Conferences. LONDON

NOVEMBER 20-21

1991 NATIONAL CONFERENCE ON INTEGRATED POLLUTION CONTROL FOR THE PROCESS INDUSTRIES. The economic realities of IPC regulation: the pitfalls vs the potentials. Convert environmental demands into financial opportunities. Contributors are the board from government and regulatory authorities to environmentalists and leaders in the industry. Contact: Customer Services, IIR Scientific & Technical Division, 071 587 1117. LONDON

NOVEMBER 25 & 26

IT OUTSOURCING AND FACILITIES MANAGEMENT
A review of IT Outsourcing and Facilities management in the 1990s by some of the leading experts in the marketplace. Conference Organisers: IIR Scientific & Technical Division. Contact: Customer Services on 071 587 1117. LONDON

THE WEEK AHEAD

ECONOMICS

August retail sales statistics could help clarify UK recovery prospects

GENERAL election fever subsided somewhat in the UK last week as unemployment figures for August registered another big rise and the inflation figures came in a bit worse than the markets had expected.

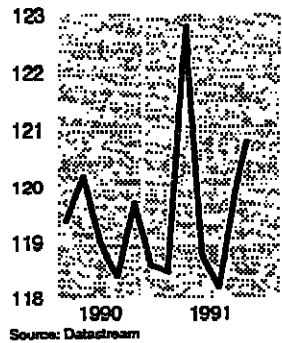
A rash of rights issues, profits warnings and bankruptcies overshadowed government claims that the economy was back on course and the predicted second-half recovery well on the way. But more news about the real economy today should help clear the picture.

August's retail sales volumes will be taken apart for signs that a recovery has begun on Britain's high streets, in spite of ceaseless efforts by retailers to discount goods and stimulate trade.

Ms Ruth Lea, Mitsubishi Bank's economist, supports the government's claims that retail sales are now on an upward trend, boosting some probably over-optimistic recovery. July's volumes were revised up to a sharp 0.7 per cent increase, after June's buoyant 1.5 per cent rise. She projects a 0.3 per cent increase for August, slightly above the consensus of market forecasts compiled by

UK retail sales

Volume (average 1985=100)



Source: Datastream

MMS International, the finance research company.

Industrial production output is also on the up, suggesting an underlying improvement on the supply side. Though manufacturing output in July is predicted to be flat, after declining for a year, the overall production index is predicted to rise following a jump in oil output in the North Sea.

In the US, the Federal Reserve's easing of monetary conditions on Friday after the sharpest fall in retail sales for seven months should help the recovery along. There was no

inflationary danger as inflation has been on a downwards path since peaking last autumn.

A modest recovery in the manufacturing sector is expected in the output data for August, while the forward-looking NAPM index "has already picked up sharply and suggests a steady improvement in output growth," according to Mr Neil Macdonald, economist at Yamachi International, the Japanese securities house.

But he pointed out that growth in the US economy remained "unbalanced" with consumer spending in the doldrums.

In Japan, real gross national product data for the second quarter is expected to show weakness in personal consumption, to be offset by buoyancy in exports.

Other important events and statistics, with median market forecasts from MMS in brackets, include:

Today: Switzerland, Bank Holiday in Zurich. UK, August retail sales (down 0.2 per cent). July industrial production (0.5 per cent), manufacturing output (flat). July unit labour costs (9.3 per cent, three-month average). France, August pre-

liminary consumer prices index (CPI) (0.3 per cent). Sweden, August trade balance. Denmark, August CPI. Canada, July inventories to shipments ratio. July unfilled orders. US, July business inventories (down 0.5 per cent).

Tomorrow: US, August industrial production (0.5 per cent), capacity utilisation (80 per cent). UK, August public sector borrowing. Japan, July industrial production. Australia, second quarter manufacturing production index.

Wednesday: US, Federal Reserve releases Tan Book for October meeting of the Federal Open Markets Committee.

France, draft finance bill presented to weekly Cabinet meeting. US, housing starts for August (1.05m), building permits.

Thursday: US, July merchandise trade balance (down 5.2), merchandise exports (\$25bn) initial claims, money supply. UK, August money supply, bank lending. Japan, August money supply.

Friday: Japan, July personal consumption expenditure, personal income. New Zealand second quarter overseas debt.

Rachel Johnson

RESULTS DUE

GERALD RATNER will certainly regret his recent throwaway comment on the quality of one product sold by his jewellery group when interim results are announced next week. His less-than-flattering joke about a sherry decanter turned some people away from Ratners, although some probably went next door to his separate "upmarket" stores.

The group as a whole is expected to announce on Monday a plunge to a £15m loss, compared to a £9.3m profit last time. Heavy losses in the UK are likely to be the main reason behind the plunge.

Kingfisher is expected to show on Tuesday a decline from £65.4m to about £60m, mainly because of a sharp drop in profits from property development. However, deepening losses at Woolworths and Comet will also contribute to the fall.

Tesco, the same day, will perhaps have the best news in the food and retailing sector with profits forecast to rise 33 per cent to £230m for the first half. However, the rights issue in January means earnings per share are expected to increase just 15 per cent to 8.1p.

On Tuesday Fisons, the pharmaceutical and horticultural products group, is expected to report interim pre-tax profits of £105m, up 16 per cent from last year, giving earnings per share of 11.7p, up 12 per cent on the previous interim.

Guinness, the international drinks group, is likely to report on Thursday interim taxable profits of £350m compared to last year's £322m. The expected 8 per cent increase, while not as sparkling as the 33 per cent rise during the comparable period, was achieved against difficult trading conditions, which included the Gulf War.

It is no secret that trading has been rough for Hawker Siddeley, making for slim chances that there will be any lift in interim profits to be announced on Thursday. The City is looking for pre-tax profits of around £90m, although some analysts are taking their forecasts down further. This is substantially down from the £94m realised at the last interim, stripping out heavy contracting losses suffered then.

The UK recession is expected to have taken a further toll on APV, the maker of food manufacturing equipment which saw a sharp deterioration in the second half of last year.

A 40 per cent fall in interim pre-tax profit to £15m including further restructuring costs is on the cards.

Evidence of more pain in the construction sector can be expected next week when it is

the turn of Rugby on Monday and RMC on Thursday to announce interim results.

The first half, as has been shown by recent figures from household based contractors, housebuilders and developers, was dreadful - particularly the first three months of the year when bad winter weather further restricted output.

Forecasts for Rugby, one of only three British cement manufacturers, suggest the company will be fortunate to break £20m for the first half compared with £34.5m last time.

Profits for RMC, the world's largest ready-mixed concrete company, are forecast to be between £65m and £75m compared with £108.3m in the first half of 1990.

Recession aside, Morgan Crucible, the industrial materials group reporting on Monday, could show interim pre-tax profits up slightly to £29m.

UK COMPANIES

TODAY

COMPANY MEETINGS:
Bentley, Ramada Hotel, 10, Berners Street, W., 12.30
Electron House, Howard Hotel, Temple Place, W.C., 11.30
Escalibur, Escalibur House, Park Lane, Birmingham, 11.00
Lister, Mannings Mills, Lillycroft Road, Bradford, 12.00
Mervier-Swain, Astley Lane Ind. Estate, Swillington, Leeds, 2.30
Murray Smaller Markets Trust, 7, West Nile Street, Glasgow, 12.15
Norbin Electronics, Norbin House, 14-16, Bolton Road, Reading, 10.00

TOMORROW

COMPANY MEETINGS:
British Bloodstock Agency, Queensway House, 129, High Street, Newmarket, 12.00
Firth (G M), Cedar Court Hotel, Wakefield, 11.45
Wessex Water, Assembly Rooms, Bennett Street, Bath, 11.00
Westport, Brookmans Park Hotel, Brookmans Park, Hatfield, Herts., 10.00

BOARD MEETINGS:

Finals:
Control Securities
Daigley
FII Group
Kingsfisher
Scholes
Second Alliance Trust
Thompson Clive Invs.
Interims:
Asda Property
Christies Int'l.
EIS
F&D
Fisher (James)
Golden Vale
Huntleigh Tech.
Inchcape
Irish Life
Lopex

WEDNESDAY SEPTEMBER 18

COMPANY MEETINGS:

Gibbs Mew, The Cloisters, Ivy Street, Salisbury, Wilt., 3.30
JS Pathology, 32, Jamestown Road, N.W., 12.00
Merchant Retail, Tailor Chandlers Hall, 4, Dowgate Hill, E.C., 9.30
Midlands Electricity, National Exhibition Centre, Birmingham, 11.00
Missy, Waterman's Hall, St. Mary at Hill, E.C., 12.00
South Western Electricity, English Riviera Centre, Torquay, 2.00
Tyndall Hldgs., Plasterers Hall, 1, London Wall, E.C., 12.00

BOARD MEETINGS:

Finals:
Alumasc
Community Hospitals
Merivale Moore
Interims:
Abbott Mead Vickers
Blockleys
Borthorpe
Calor
Fitch RS
Kwik-Fit
London Forfailing
MMI
North Sea Assets
Secure Trust
Stag Furniture
Steel Burill Jones
Trade Indemnity
Worcesters

THURSDAY

COMPANY MEETINGS:

Alumasc
Community Hospitals
Merivale Moore
Interims:
Abbott Mead Vickers
Blockleys
Borthorpe
Calor
Fitch RS
Kwik-Fit
London Forfailing
MMI
North Sea Assets
Secure Trust
Stag Furniture
Steel Burill Jones
Trade Indemnity
Worcesters

BOARD MEETINGS:

Finals:
Alumasc
Community Hospitals
Merivale Moore
Interims:
Abbott Mead Vickers
Blockleys
Borthorpe
Calor
Fitch RS
Kwik-Fit
London Forfailing
MMI
North Sea Assets
Secure Trust
Stag Furniture
Steel Burill Jones
Trade Indemnity
Worcesters

DIVIDEND & INTEREST PAYMENTS

TODAY

Agricultural Mortgage Corp. 7 1/4 % Deb. 9/1/93 3.675pc.
BankAmerica Corp. (Fts. to buy Pfd.) 30c/s.
Chester Waterworks 4.2% (Fmly. 6%) Max. 2.1pc.
Cibcorp O'Leary Finance Corp. NV Gld. Flt. Rate Nts. 1994 \$16.97
Creighton's Naturally 4.4p
Dover Corp. 21c/s.
Druck 3.5p
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ARTS

Letter from New York

A long, green summer

This has been a green summer in New York. Not green in the European environmental political sense, but in the more traditional way of viewing gardens. Included among the masters of 20th-century Modernism, like Picasso, Balanchine and Le Corbusier, is the 92-year-old Brazilian landscape architect, Roberto Burle Marx.

By employing ingredients from all the other arts — light, colour, motion, sound and structure — in the service of garden design, he made the kind of creative leap, without reference to the past, that makes an art form totally new. He is clearly the *Nôtre* of our time.

This summer, as its first exhibition ever on a landscape architect, the Museum of Modern Art sponsored Roberto Burle Marx: *The Unnatural Art of the Garden*, a small display of his early drawings along with plans, models and photographs of ten major landscapes out of the almost 3000 he has designed, some only on the drawing board. The most impressive exhibit of all was the slide lecture delivered by Burle Marx in person that gave a rare glimpse into the way he now houses at his home in Campo Grande almost 3500 different native plants.

Dedicated to saving the flora of the Amazon Basin and the first to use these species in designed gardens, Burle Marx in no way tries to recreate or even to mimic their natural habitats. Instead, the brilliant tones and lush foliage became for him what the curator of the show, William Howard Adams, calls the "raw materials" of his

art just as glass and reinforced concrete were to architects of the modern movement.

First he observes how a plant grows in nature before it becomes "an actor," as he describes it, in his gardens. A painter, muralist, sculptor, architect and set designer, as well as an exemplary botanist, he draws on all these talents. He begins with multicoloured garden plans, many with kidney-shaped planting beds that resemble the later cut-outs of Matisse or the paintings of Jean Arp.

Long known for such public landscapes as the wavy mosaic of the red, white and black tiled promenade that mirrors the crashing surf along the Copacabana beach, he emerged in the exhibition as the consummate creator of garden settings. There is something finally ecological in the spreading of his agaves, water lilies, bromeliads and palms, particularly at one garden overlaying the ruins of a coffee plantation at Fazenda Varigem Grande. Now the old coffee bean bath is incorporated in a series of pools and cascades, his "liquid sculptures."

The catalogue (\$19.95), written by Adams, expands on the various themes and carries an important message about gardens in the New World. (Scheduled to tour internationally, the show will open next at the Mendocino Foundation, Caracas, Venezuela, in January 1992.)

Two of Roberto Burle Marx's garden plans in gouache on cardboard also figure in an exhibition at the Max Protetch Gallery simply called *Green*, which includes drawings and models by a dozen architects, landscape architects and artists who design gardens or garden structures (until September 28).

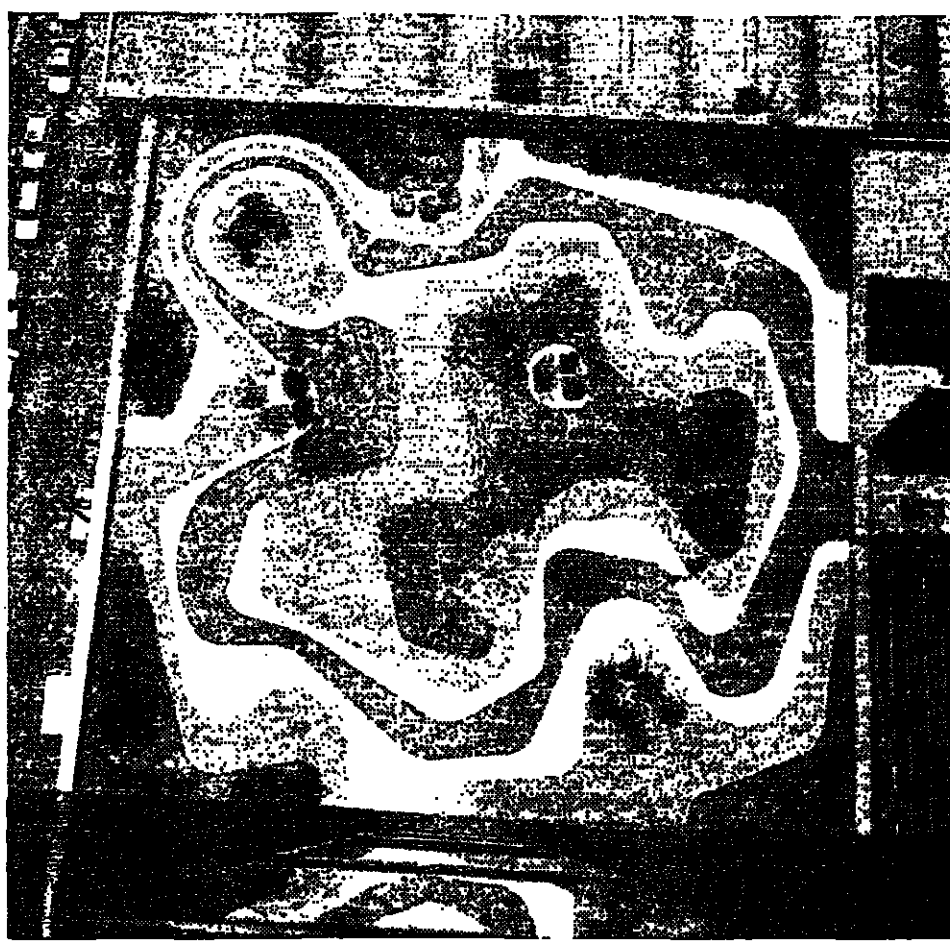
What makes this show of 26 pieces challenging is its diversity as a travelogue of ideas and places. One need only see the reality of summer roof gar-

dens on the Manhattan skyline to appreciate Roger Ferri's fantasy proposal of a tree-like tower sprouting leafy friends or James Wines's design for a Japanese cultural centre in Paris where a series of glass enclosed terraces and outdoor gardens blur the distinction between inside and outside.

In Elyn Zimmerman's "Marabar", both the drawing and the model, sliced boulders divided by a channel of water represent a soft sculptured aesthetic akin to Zsazsu Noveck's fountain and stage sets. Barbara Stauffacher Solomon, in drawing Castle Howard and its gardens in coloured pencil, uses mapping techniques, historical data and personal memories to convey a sense of place. In 1991, Michael Graves has even more to say about the campaign and the past in his dream-like drawing of an archaic landscape, a seductive combination of orchards and obelisks, cypresses and capitals in ruin. And in small, mounted, collage-like models called "Notations on Gazebos," Shah Aramian continues his exploration of structures in the landscape, which like 19th-century follies are not quite real but real enough to draw one mentally into the enclosure.

Another aspect of American flora can be seen in a scientific show that has evolved into one of the treasures of the summer art season, *Illustrating Nature: The Art of Botany* at the National Academy of Design (until early October) celebrates the centennial of the New York Botanical Garden by displaying 95 works from its vast library. Botanical drawings have long been a staple of the drawing room as well as the laboratory, but here the survey of material also reaches back into the exploration and history of American gardens in the mid-19th century.

No modern photographic technique has replaced the accuracy of the artist's eye in



Safra Bank, São Paulo: aerial view of a roof garden by Roberto Burle Marx

reproducing petals, stamens, seeds and roots for the record. One of the volumes in this exhibition is a study of orchids in the West Indies and Central America by Nathaniel Lord Britton, who was one of the founders of the New York Botanical Garden in 1891. A botany professor, he and his wife returned from their honeymoon in England wondering why New York could not have an institution like the Royal Botanic Gardens at Kew. One hundred years later, the Garden's president, Gregory Long, sees the 250-acre park in the Bronx as a museum of plants. It also represents a history of American landscape design from the roads laid out by the Olmsted Brothers and a rose garden planned by Beatrix

Jones Farrand in 1915 to a more recent personal garden by Lynden Miller. With one of the largest herbariums in the world, many specimens hand sewn to their mounts, it is also a formidable research institution with scientists working in the Amazon Basin recording disappearing plant specimens and studying methods by which local herbs and roots used medicinally can be applied to current medical research. Their extensive community garden programme that has transformed vacant lots into flower and vegetable gardens has made New York a greener place to live.

Paula Deitz

Colin Amery is away.

The Winter's Tale

YOUNG VIC

David Thacker's austere and cerebral production of this late Shakespeare play is rooted in the distinction between immaturity and innocence. Trevor Eve's wild-eyed, wider-haired Leontes is, to put it bluntly, what the honest Northerners of the Bohemian shepherd might well call a prat. He revels in his jealousy, then prostrates himself in the grief of an overgrown adolescent. This is as good a way as any of explaining the sudden, catastrophic anger, which squalls up apparently from nothing. It is a teenager's tantrum, which might be considered innocent, if it did not go hand in fist with the power of a father and a tyrant.

As if in instinctive recognition of this vulnerability, his courtiers reach out to him with comforting hands, only to be smacked away. The logic of Antigonus' willingness to dispatch the infant princess lies not, as so often, with his fear of his wife (Fiona Victor's Paulina is sensible, kind and far from domineering), but in an urge to soothe and placate. In place of a bear, he dies despatched by an eery, leonine roaring — as if engulfed in the fantasy he has tried to serve.

The innocence comes later, in sheep-shearing festivities that are gleefully led by Barrie Rutter's pious-piper of an Autolycus, who whisks the girls into a song and the men into a primal Morris dance, with straw masks and staves, as Sarah-Jane Fenton's graceful nymph of a Perdita rhapsodises over her herbs and entrances Ben Miles' adoring

Florizel. The accents are gently Northern, and the point is clearly made that gullibility is merely another sort of faith. Daniel Fynn's Clown, with his carrot curls and scrubbed cheeks, is not stupid but naive: his belief in Autolycus's sob story is less extraordinary, when all is said and done, than Leontes' willingness to believe that his wife's statue can be brought to life — a willingness which involves a surrender of power to Paulina, returning him to a sort of innocence.

A sense of time passing is enshrined in Sheelagh Keegan's superb, stark set of a sunken circle in grained wood which — with the textured lighting of Jim Simmons — can be imagined into formal cloisters, a sundial, a rough-and-ready dance platform or, finally, a magic circle, in which reality can be so inverted as to allow the descending Hermione to walk up to her incredulous husband. Rudl Davies, occasionally hard to hear in the first act, has a nobility of outline and a sad dignity of bearing which keeps attention centred on her in the fifth.

My one quibble is with the drabness of costuming in the Sicilian scenes, before the imagination has connected with the idiom of a production which, in Thacker's hands, sends one out the theatre wondering why *The Winter's Tale* is not always performed in the round.

Claire Armitstead

Idomeneo

ROYAL ALBERT HALL

Every Prom season borrows an opera or two from one of the regular companies — sometimes walked through, sometimes "semi-staged"; but it is unusual for a Prom opera to serve as preview for a forthcoming production. On Friday Sir Charles Mackerras conducted his Welsh National Opera forces (not even walking much, just standing and sitting) in Mozart's *Idomeneo*, which opens at the Cardiff New Theatre this Wednesday. Rewarding but protracted, it ran almost half an hour over time, even without the ballet music.

For one thing, *Idomeneo* got his final aria, "Torna la pace". Presumably a late decision, since the programme text omitted it, but a welcome one: the opera always seems incomplete without it, even if Mozart himself cut it from the 1781 premiere. Dennis O'Neill's proudly Italianate tenor was fully equal to it, and earlier he had made an heroic assault on the fearsome "Furor del mar", incurring only a couple of scratches. It was an unaccustomed pleasure to hear this role delivered so robustly (and with exemplary diction).

It was a less good idea to give Arbace a long, thankless aria too, which Anthony Roden addressed manfully but without much allure. Young Paul Charles Clarke made a promising impression as the High Priest, and Ashley Thorburn as a pre-recorded Neptune. Suzanne Murphy sang a committed, interesting Electra. As Ilia, the very young Rebecca Evans replaced Amanda Rocco (out

of action with glandular fever) and triumphed. Her large soprano, beautifully used, her sterling breath-control and not least her spirited character were assets to the whole opera.

Too often, Ilia is content to flout gently and sweetly, especially when their Idamantes are sopranos too; with a tenor Idamante, as here, an Ilia needs to overdo her frail femininity. In fact John Mark Ainsley's Idamante was a gentle soul, though sung with refined confidence notably "Non ho colpa", where he ornamented the reprise to splendid effect. Their duet was melting and rather slow, like much of the later music. With the tenderest intentions, Mackerras seemed to make the greater part of Act 3 one long *rallentando*: over-stated, I thought, and — at least for a concert performance — riskily undramatic.

Still, the conductor's scrupulous searching way with all the recitatives was a particular glory of the performance. They are a glory of the opera, of course (and one of the reasons why it is awkwardly long); never before had Mozart invested *recitativo* and *arioso* passages with such expressive richness. Mackerras made his orchestra live up to those unusual demands, and even long-standing *Idomeneo* lovers will have had their breath taken away at some of the poignant turns he revealed. The chorus was excellent, as always: "Oh voto tremendo" was tremendous.

David Murray

White Oak Dance Project

PHILADELPHIA

Now 43 and with a chronic knee injury, Mikhail Baryshnikov has given up the big classical roles, but he is clearly not ready to stop dancing. During his years at American Ballet Theatre, he used to go out on tour during layoffs with a small group of dancers from that company and elsewhere, with a mixed repertoire. Since he quit his post as artistic director of ABT, he has formed a small ad hoc touring group called the White Oak Dance Project, after the estate on the border of Georgia and Florida belonging to Howard Gilman, a long-time Baryshnikov supporter, where the company rehearses. It has just completed its third tour, with a penultimate performance at the Mann Music Center in Philadelphia (so far, it has not played New York City).

The personnel of the company, a dozen or so dancers from ballet and modern dance companies, especially that of Mark Morris, has changed from one tour to another. All the choreography has been by Morris, including two works made especially for White Oak, *Motocade* (to the Saint-Saëns Septet for piano, trumpet, and strings) and, replacing it in the most recent tour, *A Lake* (to Haydn's Horn Concerto No 2 in D major). *Going Away Party*, an instant classic when it was

first given by the Monnaie Dance Group/Mark Morris in Brussels in April 1990, was in the repertoire for the first White Oak tour. This time the performance benefited from the presence of more members of Morris's own company than before, especially Morris himself in his role of odd man out. Baryshnikov was miscast in that role: he did not quite look as if he belonged in Texas. Morris brings to it an exquisitely judged elegiac touch, without disturbing the balance of the affectionate and the ribald.

Baryshnikov danced in all the other pieces on the programme. He has made Morris's early solo, *Ten Suggestions*, completely his own, starting with a crisp double in *tour en l'air* and deftly sketching the moods and fancies suggested by such props as a hoop, a chair, a length of ribbon, a toy — and by the Alexander Tcherepnin "Bagatelles" for which the piece is set. In *Deck of Cards*, another of Morris's pieces in country-and-Western music, Baryshnikov brings a fanatic gleam to a song about a GI who offers a Biblical interpretation of his pack of cards. In the other solo that makes up this work, Morris appears in travesty, a performance as powerful as his impersonation of the tragic queen in Purcell's

Dido and Aeneas.

The opener, *Canonic 3/4 Studies* (1982), is a series of movement jokes to a collection of favourite piano waltzes. The little pas de trois that rings the changes on the way the cavalier alternately lifts the two danseuses reminds me of Ashton's *Tweelettum* and *Tweelettum*. Baryshnikov proves to be a master of deadpan comedy here, which cannot be said for all the company, some of whom telegraph the jokes.

A *Lake*, the new piece, does not have the striking originality of Morris's masterpiece *L'Allegro, Il Penseroso ed Il Moderato* — it's in a rather Paul Taylorish vein, in fact. But Morris's musicality shows itself in such felicities as a moment in the first cadenza, danced by Baryshnikov, when the horn sounds like a faint echo and two women are lifted in suspended jets, echoing one of his movements. The adagio, in which one dancer after another falls in a swoon, to be caught by others, is beautiful and moving. The fleet and witty Kate Johnson, formerly with the Taylor company, who has been on all three White Oak tours, again proves herself an ideal partner for Baryshnikov.

David Vaughan

Cristoforo Colombo

ALTE OPER, FRANKFURT

The 19th century produced at least five operas on the subject of Columbus; the 20th century those of Milhaud and Egk. One wonders what next year's 500th anniversary holds in store. In 1893, Genoa held an operatic competition in honour of its famous son, and the winner was Alberto Franchetti (1859-1939), whose work has just been revived for two hugely rewarding concert performances at the Frankfurt Festival.

Franchetti may rank as one of the also-rans of operatic history, but *Cristoforo Colombo* is testimony to his undoubted talent. Born in Turin, he had private means to support extensive study in Dresden and Munich. The influence of which can be detected in the work's precise dramaturgy, as well as its Mendelssohnian orchestral textures and the Wagnerian tone-painting of bass clarinet, trombones and double bass.

But *Cristoforo Colombo* — divided into three acts and an epilogue, libretto by Luigi Illica — is nonetheless a full-blooded Italian grand opera, dominated by tableaux of Meyerbeerian design and proportion, skilfully interwoven with passages of warm, refined lyricism. In the Genoa competition, Verdi's approval is said to have swung the jury in Franchetti's favour. Toscanini conducted some of the opening run and also the 1895 revival. The opera was subsequently heard in German in Hamburg and Prague, and Titta Rufio sang the title part in Monte Carlo, Buenos Aires, Philadelphia and Chicago.

Listening to this disciplined, poetic performance by the Frankfurt Radio Symphony Orchestra and Budapest Radio Choir under Marcello Viotti, it was easy to understand the work's early popularity. It shares some of the Mediterranean sea air and tragic grandeur of *Simon Boccanegra*. It is an open invitation to spectacle (Verona and Earl's Court please note). There is also a well-characterised exotic element in the Act three Mexican setting, with a fiery soprano aria for the Indian princess Ausciana. Franchetti moves commandingly between gentle

arioso and dramatic crescendo. Indeed, the instrumental and choral writing repeatedly seizes the imagination, with rich polyphonic harmonies and grateful woodwind obbligatos.

Why, then, has *Cristoforo Colombo* suffered such long neglect? Its festival character no doubt has something to do with it. Franchetti makes no attempt to "sell" the opera with a romantic sub-plot, but it makes heavy demands on casting, and only Columbus and the bass role of Don Roldano (the Spanish knight who acts as the hero's evil counterpart) have a decent evening's work. Most of the action consists of well-populated set-pieces, and unlike *Boccanegra* or the *Pescari* does not have really place the historical figure of Columbus, despite a long and moving death scene at the tomb of Queen Isabella of Spain.

The Frankfurt performance found Renato Bruson in generous voice, though unable to slice through the ensembles as Ruffo might have done. But the casting was right: there is no melodrama in the part, and Bruson did not try to inject any. He did, however, capture Columbus' disillusionment when the New World turns out to be a false utopia. As Roldano, Roberto Scanduzzi made a suave villain. Marco Berti, an elegant young tenor, sang the part of Guevara, Columbus' loyal captain. The soprano writing is all light and linear: Gisella Pasino's Ausciana had a welcome dash of temperament, while Rosella Ragazzi caught the visionary quality of Isabella's Act one prayer.

But the outstanding contributions came from chorus and orchestra. The Hungarians sang with the kind of voluminous ease and transparent delicacy for which East European choirs are justifiably renowned. The orchestra, clearly engaged by Franchetti's generous scoring, was no less impressive, and Viotti presided with an attractive blend of dynamism and support.

Andrew Clark

INTERNATIONAL ARTS GUIDE TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Piano recital by Arielle Vernede, with music by Mozart, Szymanowski, Beethoven and Debussy. Tomorrow: Mitsuko Uchida plays Mozart with the English Chamber Orchestra. Wed, Thurs and Sat: Georg Solti conducts the Royal Concertgebouw Orchestra. Fri: Solti conducts the Saito Kinen Orchestra. Sat at 14.00: Hans Vonk conducts Strauss and Wagner (5718 345). Muziektheater 20.00 Hartmut Haenchen conducts Richard Jones' production of Tchaikovsky's *Mazepa*, with Sergey Leiferkus in the title role and Lyubov Sharmlova as Maria, also Thurs and Sun. Tomorrow and Wed: Dutch National Ballet. Fri and Sat: Nederlands Dans Theater (6255 455/credit card bookings 6211 211).

ANTWERP

Koninklijk Elisabeththeater 20.00 Flanders Festival: Yuri Temirkanov conducts the Leningrad Philharmonic Orchestra in an all-Prokofiev programme. Wed: Michel Corboz conducts the chorus and orchestra of the Gulbenkian

Foundation in Carvalho's Te Deum. Thurs: Mozart and Prokofiev piano recital by Alan Weiss (283 7150).

BERLIN

MUSIK Schaefer unter den Linden 19.00 Peter Schreier conducts *Le nozze di Figaro*, with a cast led by Magdalena Hajosyova as the Countess. Tomorrow: Swan Lake. Wed: Così fan tutte. Thurs: Der Freischütz. Fri and Sat: Carl Orff double-bill. Sun: Der Rosenkavalier (East Berlin 2004 762). Komische Oper 19.00 Rolf Reuter conducts Harry Kupfer's production of *Die Zauberflöte*. Tomorrow: Romeo and Juliet. Thurs: Idomeneo. Fri: Così fan tutte. Sat: Glustino. Sun: *Le nozze di Figaro* (East Berlin 2236 555). Schauspielhaus 20.00 Carlo Maria Giulini conducts the Berlin Philharmonic Orchestra in Tchaikovsky's Second Symphony. Ravel's *Ma Mère l'Oye* and Stravinsky's *Firebird* (1919). Wed: David Shalton conducts the Berlin Staatskapelle. Thurs, Fri and Sat: Ferdinand Leitner conducts the Berlin Symphony Orchestra (East Berlin 2272 261).

THEATRE

East Berlin: this week's repertoire at the Berlin Ensemble includes Eugene's *The Good Person of Sezechuan* tonight and Sun, Galileo Galilei tomorrow. The Threepenny Opera on Wed and Mother Courage on Thurs (2827 712). The Deutsches Theater has Schiller's *Maria Stuart* on Wed, *Hamlet* and *Hamletmaschine* by Shakespeare and Heiner Müller on Sat, and Ionesco's *The Bald Prima Donna* on Sun (2871 225). The Maxim Gorki Theater has George Tabori's

Mein Kampf tonight and Sat, Shakespeare's *As You Like It* tomorrow. T.S. Eliot's *The Cocktail Party* on Wed and Peter Shaffer's *Amadeus* on Fri (2082 748). The Volksbühne is showing Molière's *Le Malade imaginaire* on Wed. The Comedy of Errors on Thurs and an adaptation of Bulgakov's *The Master and Margarita* on Fri and Sun (2082 748). West Berlin: the Schiller Theater has Lessing's *Minna von Barnhelm* tonight. Thomas Brasch's modern version of the *Romeo and Juliet* story on Wed, and *Macbeth* and *Faust* at the weekend (3195 236). The Renaissance Theater has Peter Shaffer's *Amadeus* directed by Gerhard Klingenberg, daily till Oct 29 (3124 202).

COLOGNE

Philharmonie 20.00 Mozart No End: an evening with the pianist Friedrich Gulda and the Paradise Band. Tomorrow: Schubert string quartets played by the Melos Quartet, with cellist Wolfgang Boettcher. Wed: German Jazz Orchestra. Thurs: Mitsuko Uchida plays Mozart with the English Chamber Orchestra (2801).

FRANKFURT

Alte Oper 20.00 An experimental music-theatre work directed by Fred van de Kooij, with the Ensemble 13 conducted by Manfred Reichert, combining music by Mozart and contemporary composers with recorded sound, visual projections and a role for an actress. Repeated tomorrow. Wed: Tatiana Grindenko is violin soloist with the Moscow Chamber Academy. Thurs and Fri: Semyon

Bychkov conducts the Frankfurt Radio Symphony Orchestra, with the Labèque Sisters (1340 400).

GENEVA

Grand Théâtre 20.00 Christian Thielemann conducts Pierre Strasser's production of *Der fliegende Holländer*, with Jose van Dam in the title role, Linda Plech as Senta, Ben Heppner as Erik and Hans Tschammer asaland, repeated on Thurs and Sun. Tomorrow: Lieder recital by Olaf Bär (2123 11).

HAMBURG

Staatsoper 19.00 Die Zauberflöte. Tomorrow and Fri: Don Carlos. Wed and Sat: Werther. Sun: La Dame aux Camélias (351555). Muekhalle 20.00 Gunter Wand conducts the North German Radio Symphony Orchestra in Beethoven's Coriolan and Egmont overtures and Schumann's Third Symphony, repeated tomorrow (343044).

LONDON

Covent Garden 20.00 First Night of Götz Friedrich's production of *Das Rheingold*, conducted by Bernard Haitink and designed by Peter Sykora. The cast includes James Morris as Wotan, Helga Dernesch as Fricka and Ekkehard Wlaschika as Alberich. Repeated on Sat. Tomorrow: Rigoletto (071-240 1055). Coliseum 19.30 Yan Pascal Tordella conducts Keith Warner's production of *Werther*, with Arthur Davies in the title role and Anne-Marie Owens as Charlotte, also Thurs. Tomorrow and Fri: Billy

Budd. Wed and Sat: La bohème (071-836 3161). Royal Festival Hall 19.30 Seiji Ozawa conducts the Saito Kinen Orchestra in Brahms' Second and Third Symphonies, also Takemitsu's Requiem for Strings. Tomorrow: James Lockhart conducts the BBC Concert Orchestra. Wed: Sinopoli conducts the Philharmonia. (071-828 8900). Sarban 19.45 Moura Lympany 75th birthday recital, with music by Chopin, Debussy and Schumann. Tomorrow: charity gala showing of Kurosawa's latest film *Rhapsody* in August. Thurs: Michael Tilson Thomas conducts the LSO (071-838 8891).

MUNICH

Philharmonie 20.00 Sergiu Celibidache conducts the Munich Philharmonic Orchestra in Bruckner's Third Symphony (48098 614). Deutsches Theater 20.00 Budapest Operetta Theatre production of *Die Fledermaus*, daily till Oct 5 (593427). Götterplatztheater 19.30 Eugen d'Albert's opera *Tielland*. Tomorrow: Der Vogelhändler. Wed: Einführung. Thurs: Figaro. Fri: Bartered Bride. Sat and Sun: Sondheim's *Into the Woods* (201 6767). Cuvillies-Theater 19.30 Arthur Schnitzler's play *Interlude* (Zwischenspiel), directed by Peter Löscher (221316).

PRAGUE

MOZART IN PRAGUE FESTIVAL Smetana Hall 19.30 Emmanuel Krivine conducts the Orchestre de Paris in Mozart's Symphony

No 32 and Sinfonia Concertante for wind instruments, plus Ravel's Daphnis et Chloé Suite No 2 and extracts from Berlioz's *Romeo et Juliette*. Tomorrow: Salvatore Accardo directs the Prague Chamber Orchestra. Thurs at the Smetana Theatre: *Die Entführung aus dem Serail*. Sun: Bamberg Symphony Orchestra. The festival runs till Sep 29. Pre-booking at Smetana ticket agency, Wenceslas Square 28, and Cedok.

VIENNA

MUSIK Staatsoper 20.00 Peter Schneider conducts Salome with Mara Zampieri in the title role, Leonie Rysanek as Herodias, Horst Hiestermann as Herod and Monte Pederson as Jochanaan, repeated on Fri. Tomorrow: Behrens sings Elektra. Wed and Sun: Cav and Pag. Thurs: Die Zauberflöte. Sat: Abbado conducts Lohengrin (51444 2900). Volksoper 19.00 Cinderella, ballet by Prokofiev, repeated on Sun. Tomorrow: Don Giovanni sung in German. Wed and Sat: La Cage aux Folles. Thurs: Eine Nacht in Venedig. Fri: Das Land des Lächelns (51444 3318).

THEATRE

This week's repertoire at the Akademietheater and Burgtheater includes Shakespeare's *The Merchant of Venice* and Jürgen Fimm's Salzburg Festival production of *Der Schwierige* by Hugo von Hofmannsthal (51444 2218). Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513.

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Monday September 16 1991

Israel presses its luck

PRESIDENT George Bush and Mr James Baker, the US secretary of state, the patient and dogged men. They have both invested considerable time and effort during the past few months in seeking to organise a Middle East peace conference aimed at securing peace and security for Israel and some form of self-determination for the Palestinian people.

It is a worthy aim, based on UN resolutions, supported by virtually the entire international community. No one has underestimated the immensity of the task, but in the wake of communist's collapse in eastern Europe and the revolution in the Soviet Union the chances of progress must be better than at any time in the past four decades.

The changed and generally more constructive attitude of possible Arab participants to a peace conference illustrates how important and radical those changes in the international environment have been. The release of hostages in Lebanon is further tangible evidence.

Mr Bush might expect his best friend and closest ally in the region, Israel, to be the most supportive of his endeavours. But Mr Bush's hastily summoned press conference last week, when he threatened to veto congressional approval of an Israeli request for \$10bn in loan guarantees, showed instead just how thin his patience is being stretched by the attitudes of the government in Jerusalem.

Requests ignored

For 15 years successive US Administrations have been asking Israel not to build villages or towns and settle its citizens on the Arab land occupied during the 1967 war. Israel has chosen to ignore those requests while continuing to receive more than \$3bn in annual aid from Washington.

President Bush, enthused by the willingness of Syria and other Arab nations to attend a peace conference in October, has again urged Israel to stop building in the occupied territories. Israel increased the pace of building. Mr Bush then asked Israel to delay making its formal request for US guarantees for the \$10bn it estimates that it needs to borrow

in the next five years to settle up to 1m Jews arriving from the Soviet Union. Israel ignored him and made the request.

Lobbying campaign

Mr Bush then asked Congress to delay consideration of the request for four months, citing the possible damage it might do to prospects for convening a Middle East peace conference. American Jewish organisations responded with a vigorous lobbying campaign in Congress amounting to a direct challenge to the President's authority and drawing from him the veto threat. If this is how Israel sees fit to behave towards its friends who are sincerely seeking to be helpful, then it should not be entirely surprised if there is increased sympathy for its enemies.

Mr Bush has already had to suffer repeated assertions by Mr Yitzhak Shamir, Israel's prime minister, and other members of his cabinet, that there is no chance of Israel trading land for peace, as called for in UN resolutions. It is an assertion which strikes at the core of the peace process and inevitably adds to the difficulties of persuading Arab leaders to come to the conference table. To provide at this sensitive moment loan guarantees for settling Soviet Jews would inevitably be seen by Arabs as further evidence of Israel's intent to continue setting Arab land and of US complicity in the process.

Mr Bush appears determined not to be cast in this role. The US and Europe have their own vital interests in the Middle East which, it seems, may be diverging ever more emphatically from the intentions of the present Israeli government. The US will not allow this divergence to pose a threat to Israel's basic security, but Mr Shamir should be made to understand that there are limits beyond which the US government will not be pushed.

There will be little international sympathy for Israel if it intensifies its confrontation with Mr Bush. It should, on the contrary, take the opportunity of the seventh visit by Mr Baker to delay making its formal request for US guarantees for the \$10bn it estimates that it needs to borrow

shared between parliament and regional assemblies for Scotland, Wales, Northern Ireland and the 12 English regions; these would be financed by a share-out of the proceeds of a centrally-determined income tax.

In short, the institute has postulated a complete and abrupt change of the way in which Britain governs itself. Its aim is to stimulate debate by presenting a draft constitution. Against this background the various proposals can be seen as try-ons: not one of the 50 persons involved in debating and drafting the report agrees with everything in it.

Sham proposals

Taken as a whole, however, the IPPR constitution exposes Labour's existing constitutional proposals as a sham. Mr Kininmonth's party would devolve legislative authority to Scotland and the regions and replace the Lords with an elected body, but the central pillars of power – a sovereign Commons elected by first-past-the-post and a cabinet able to rule by crown prerogative – remain in place. The Conservative position, which is that there is no problem to address, is understandable but it is not intellectually respectable.

There is no popular agitation in favour of constitutional change, but the current climate of ideas would support a serious debate. The east Europeans and Russians are in a ferment of constitution-building; there must be some fallout in the United Kingdom.

The IPPR has made a solid contribution, but it has left one important question unanswered: how is the revolution to be engineered? The institute envisages a constitutional convention followed by a referendum, but that begs the question of whether parliament should, or would, sanction the process. Then even if a referendum gave a positive answer, the existing parliament would still be required, like the Supreme Soviet, to liquidate itself in favour of a successor body. A written constitution containing many, although not all, of the principal elements in the IPPR draft is long overdue, but it will remain so until someone works out how Britain gets from here to there.

Paper revolution

The IPPR would, in effect, overthrow that dictatorship by means of a paper revolution. The new written constitution would replace the supremacy of parliament as the ultimate source of authority. The monarchy would stay as a dignified head of state, but the royal prerogative would no longer exist. The Commons would be elected for fixed four-year terms on the additional member system of voting used in Germany. The Lords would be replaced by a Senate elected by the single transferable vote. Legislative power would be

As Britain's economy starts to turn its back on a period of painfully high interest rates, there will be little relief for millions of borrowers on the fringes of the consumer credit market.

Despite the falling cost of money the poorest customers who are deemed to be a bad risk by mainstream lending institutions will continue to carry the burden of exceptionally high interest charges.

But it has become increasingly apparent that some of the worst-off borrowers are being forced into securing credit from far less reputable lenders on far more punitive terms.

Concern over the plight of those people dependent upon the underbelly of the credit business – usually individual money-lenders operating from pubs and clubs and by word of mouth, has prompted a year-long investigation by the Office of Fair Trading.

The OFT has been trying to establish the nature and extent of extortionate credit in the UK and to see what further measures could be introduced to stamp it out. Its findings are due in the next two weeks.

The loan sharks that have been the subject of this inquiry are quite distinct from the legitimate, licensed money-lenders that deal with customers who might have difficulty borrowing from the banks.

In an area where the real cost of money is invariably far less important than the size of regular cash payments, many of the poorest borrowers – such as the unemployed and those with a history of bad debt – resort to credit which may prove very expensive but can still be repaid within modest weekly budgets.

Beyond the banks and finance houses, as many as 3m people on low incomes rely for small, short-term loans on licensed money-lenders charging high annual percentage rates. (The APR is a guide to the annual equivalent rate of return on a loan in which the interest rate specified is chargeable or payable more frequently than annually.)

A recent survey in Birmingham of licensed companies which collect debts on the doorstep found APRs averaging between 300 and 400 per cent.

The legitimate, collectable credit sector in the UK is dominated by quoted companies like Provident Financial Group of Bradford, Cables (Holdings) of Hull and London Scottish Bank of Manchester.

High overheads and high bad debt ratios mean that profit margins are generally unexceptional, even though APRs charged range from about 90 per cent to 200 per cent. S & U Stores of Birmingham, another quoted consumer credit specialist, impresses charges nearer 400 per cent on loans.

London Scottish has 1,600 part-time collectors and makes cash advances averaging £200 to people usually rejected by banks and finance houses. Mr Neil Copson, a director, quotes average APRs of 90 per cent – "the rate for the job" in a high-risk business.

He rejects the description of his business as a lender of last resort: "We only accept 15 per cent of applicants and the rest then work their way down the list of lenders; the lower they go the higher the risks and so the bigger the cost."

Question mark

The Dutch and British enthusiasm for a two-speed European Monetary Union raises an intriguing question: will Germany qualify for the "fast" group?

On the face of it, the question is ridiculous. Much of the impetus behind EMU comes from the desire to apply Germanic standards of monetary discipline to other parts of the Community.

But times have changed. Look at the first two of the four conditions the Dutch propose for membership of the fast group of early EMU members, and a sneaking doubt arises.

Condition one is a high degree of price stability, measured by a level of inflation close to that achieved by the member with the best performance on prices. Next year, German inflation is likely to be around 5 per cent while France and Britain achieve 3 per cent levels. Is that close enough?

Condition two is also more dubious than would have seemed possible when EMU was first discussed. Fast-group candidates must maintain a sustainable government financial position, apparent from budget deficits that are not deemed to be excessive.

Fiscal conservatives across Europe fear that Germany's commitment to big transfers to its new eastern citizens, coupled with unwillingness to raise taxes enough to pay for them, creates precisely the sort of unsustainable government financial position the Dutch draft talks about.

How's that for convergence?

Ex-good friend

Don't whisper it too loudly, but the word is that Sir David Walker, chairman of Britain's Securities and Investments Board, has lost one of his star panelists. On Wednesday week

Michael Cassell on growing concern over extortionate credit

Borrowers' burden



No such calculations trouble those operating outside the law and the licensing system operated by the OFT.

Last year nearly all the 25,367 consumer credit licences applied for were granted while 63 were revoked. The OFT says it has no record of how many of the 290,000 businesses given licences between 1976 and the end of 1990 are still trading.

Though no amount of legislation will stop the loan shark, illegal lenders face fines and possible jail sentences, as well as the removal of their licences. They can also have their loan business completely written off.

Most licensed operators remain in business because they strike bargains which are deemed fair by their customers. A licence, however, does not guarantee borrowers freedom from excessively expensive loans.

Mr Chris Baines of the Birmingham Settlement, a charity tackling inner-city deprivation, has on his books allegations about a local, licensed credit broker charging an APR of 490 per cent.

Four years ago, the same business was expelled from the Consumer Credit Association for imposing similar rates of interest. The fact that the broker in question is still licensed and in business, though operating under two new trading names, must cast doubt on the policing abilities of trading

standards departments and the OFT.

The association, whose members lend to 4m people, argues that the prevalence of extortionate credit is being exaggerated. According to Mr Michael Illey, director of the CGA: "We are not convinced that a serious and widespread problem exists. Suggestions that abuse is commonplace rarely seem to have any factual basis."

Though the OFT's findings on extortionate credit are not yet known, there are few expectations that it will recommend to Mr Edward Leigh, the consumer affairs minister, any significant, further protection for the most hard-pressed borrowers.

The OFT has acknowledged that some credit remains so expensive as to be socially harmful. Nonetheless it appears reluctant to upset the fundamental code on credit enshrined 17 years ago in a Consumer Credit Act intended to provide borrowers with an armory of rights and safeguards.

The most likely move will be a change in regulations making it easier for extortionate credit deals to be challenged in the courts.

At present, only borrowers can ask the courts to reopen and alter agreed deals but few appear aware of their rights or want to risk alienating lenders they may need in future.

There is widespread backing from consumer and credit organisations to allow the OFT and trading standards officers to take the initiative in challenging a credit bargain in court. A proposal that lenders involved in proven cases of extortionate interest charges could see the loan cancelled could also be taken up.

Suggestions for killing off the extortionate rates include a universal cap on interest rates or a requirement for lenders charging particularly high rates to secure a special licence.

But the danger is that interest charges would gravitate towards any imposed maximum and that some legitimate lenders would, given their costs, be squeezed out of business.

In parts of the US and in Ireland, where rate ceilings exist, the majority of lending at the bottom end of the credit market has gone underground.

Other suggested remedies extend to the provision of state funds for social lending, though on more generous and broader terms than under the present social fund, which makes loans to those in benefit in order to buy fundamental household items and clothing.

Moves to encourage the spread of credit unions, in which loans funded out of members' contributions are made at low or nil rates of interest, have also been suggested.

Mr Les Cottrell collects small loans struck at interest rates touching 100 per cent on the shabby doorsteps of Mossall, Manchester. He has no doubt his licensed employer helps provide a valuable service to those customers mainstream lenders will not touch.

"The majority of people, whatever their circumstances, make a deal and stick to it. It would be disastrous if they were stopped from borrowing from people like us. It would just mean many more would be at the mercy of those who will always get round the law."

Greening of the people's car

Andrew Fisher talks to VW's director for the environment

At the Frankfurt motor show, where glamour and performance vie with ecology and safety as selling points for new cars, one of the most sought-after executives last week was Mr Ulrich Steger, Volkswagen's new director for the environment.

As the first European car producer – and the first big German company in any sector – to appoint a board member with solely "green" responsibilities, VW is acutely aware of the contradiction between Germany's love of cars and their equally passionate care for the environment.

Today's new models are mostly safer, more economical and less inimical to the environment, and car makers put a lot of effort into getting this across. Not everyone is convinced. Greenpeace erected a hoarding opposite the show entrance. The killers of our climate," it says next to the names of German car makers.

This extreme viewpoint is one with which Mr Steger will have to deal, though not all critics of the car are so outspoken. He says he is known anyway as "stubborn and fond of conflict". The 47-year-old business school professor was Social Democratic economics minister in Hesse when the state had a red-green (SPD-Green coalition). This political background will come in useful, too.

What does he think about Germany's attitudes to cars and the environment? And what can be achieved in VW, which is committed to making profits, however pronounced its environmental conscience?

Stipping a glass of Sekt above the VW stand, he has a quote from Frankfurt-born Goethe ready to hand: "Mankind is a contradiction." Thus "we have environmental awareness on the one hand and the pleasure of driving fast on the other". He describes environmental protection as an innovative challenge. It does not mean sacrificing quality, safety, and, perhaps, driving pleasure.

Mr Steger is keen to draw environmental activists into a proper debate, so they share responsibility for deciding how future vehicles should be powered and do not just attack the car. VW's new Golf is more economical than its predecessors and is safer. Its manufacture includes fewer environmentally harmful or wasteful materials and processes.

VW has also pledged to take back the new Golf free of charge for recycling at the end of its life. This, says Mr Steger, should enhance its second-hand value. Thus consumers can work out that it pays to take care of the environment.

There is also an eco-Golf, still in the test phase, with fuel savings of 35 per cent achieved by a device which automatically switches off the engine when the car is immobile in stop-start urban traffic. Such efforts show how far



New Golf

VW and others have felt obliged to go to satisfy calls for more environmentally responsible industry. Mr Steger, whose new job covers only the VW marque and not the group's Audi, Seat and Skoda subsidiaries, believes producers must adopt a more all-embracing approach to the environment. If they are not to be confronted by stiff new laws.

In turn, he expects this to bolster his status in VW. "The strength of my position is the basic understanding at VW as the leading car producer in Europe that it also has to be number one in environmental protection if it is to remain successful in the long term."

One law that would be anathema to car executives, but which is again being discussed, is a speed limit on German motorways. "The car industry argues that the ability to drive at high speeds gives companies a superior technological edge. This, companies claim, is appreciated by purchasers."

Mr Steger is circumspect on the issue. On a speed restriction, he does admit: "It must come." He then says, as his corporate line that "my personal opinion is different from the official position of the car industry."

Like its rivals, VW is working on new concepts to save fuel, ease urban congestion and promote safety. One exhibit in the study stage is the Chiron, powered by a combination of electric motor (for short rides) and petrol-driven propulsion (for greater distances).

Mr Steger also intends to become involved with local authorities to help them develop integrated transport policies – involving buses and trains as well as cars. Again, the feeling is that without such efforts, the car will become – and, to some environmentalists, already is – the scapegoat for urban transport ills.

Within VW, the new board member intends to promote greater environmental awareness across the board, an example being the use of more energy- and materials-saving processes in the production stage. "All companies, not just VW, have to learn how to deal with environmental matters efficiently." Much of his task will be educational, he says. "I'm very good, my job will be superfluous in 10 years."

OBSERVER

he is due in Washington for the annual conference of the International Organisation of Securities Commissions, hosted by the grand-daddy of securities watchdogs, the SEC.

Walker is to chair a session on the interplay between securities and banking laws, and has lined up some impressive names including Gerry Corrigan of the New York Fed, and Michael Mackenzie Canada's superintendent of financial institutions.

But one name has been quietly dropped from the panel. Solomon Brothers ex-boss John Gutfreund.

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Condition two is also more dubious than would have seemed possible when EMU was first discussed. Fast-group candidates must maintain a sustainable government financial position, apparent from budget deficits that are not deemed to be excessive.

Fiscal conservatives across Europe fear that Germany's commitment to big transfers to its new eastern citizens, coupled with unwillingness to raise taxes enough to pay for them, creates precisely the sort of unsustainable government financial position the Dutch draft talks about.

How's that for convergence?



"You should see him when he's not wildly speculating about the election date."

person who can get enthusiastic about student loans. Even if Labour wins the election, he thinks he will still have a job. He points to socially conscious Sweden which has long had student loans. Indeed, he sees his long-term job as preparing the company for the private sector. If he pulls off a feat like that, he will truly deserve respect.

Free speech

Last week Tajikistan simultaneously declared its independence from Moscow and sent a powerful delegation to Manchester – not to seek trade or aid, but because of Manchester University's imaginative realisation that what most agitates Tajik minds at present is the Language Question.

Cloistered in the university for three days, top Tajik intellectuals discussed how their near-Persian language can replace its ugly Russian words with nice Persian or Arabic ones. But there are misgivings about how far to go.

FINANCIAL TIMES CONFERENCE

THE CHALLENGE OF THE NEW EUROPE
London, 7 October

The conference, to be arranged with the Council of Foreign Chambers of Commerce in the United Kingdom, will feature presentations by Dr Carl H. Hahn, Mr Anders Scharr, Mr Kolchiro Eiri and Sir Allen Sheppard, sharing their views on the opportunities and challenges of the new Europe. Investment in Eastern Europe will be addressed by Mr Guy de Solfers.

EUROPEAN POSTAL SERVICES: THE WAY AHEAD
London, 29 & 30 October

The UK Government's policy on competition and liberalisation of postal services, together with other European countries' experience of liberalisation, will be addressed by Mr Edward Leigh MP, Mr Yves Coudouquer, Sir Bryan Nicholson and Mr Ad Schoepbouwer. Price, quality and standards in European postal services will be analysed as well as how customers will benefit by further competition.

THE EMERGING EUROPEAN TAX SYSTEM
London, 6 & 7 November

Keynote speakers at this conference will include Mrs Christiane Schriener, Mrs Gillian Shepherd and Mr Marius van Amelsvoort. The important issue of transfer pricing, European arbitration or US advance rulings, will be addressed by Mr Charles S. Triplett, Acting Associate Chief Counsel (International), US Internal Revenue Service and Mr Thomas Menck, Head of the International Taxation Division, German Federal Ministry of Finance.

THE THIRD FT PETROCHEMICALS CONFERENCE
London, 19 & 20 November

This year's meeting will examine the current trade outlook and review developments in a number of key markets. Authoritative speakers will discuss the challenge of maintaining margins in a cyclical business, assess the impact of the economic downturn on the petrochemicals industry in Europe and look at the investment attraction of petrochemicals to the energy major. Competition policy, processing economics and environmental issues will also be addressed.

Contributors include: Mr Peter H. Vogtlander, Chemicals Coordinator, Shell International Chemical Company Limited; Mr Andrew Butler, President, Dow Europe SA; Sir Denis Henderson, Chairman, Imperial Chemical Industries PLC; Mr John E. Akitt, President, Basic Chemicals Group, Exxon Chemical International; Mr Doug Campbell, Deputy Chief Executive, BP Chemicals; Mr Mohamed H. Al-Mady, Director General - Projects, Saudi Basic Industries Corporation; Mr Javier de la Peña, Chairman & Chief Executive Officer, Repsol Quimica, SA; Mr Simon de Bree, Member of the Managing Board of Directors, NV DSM and Mr Hugo J. Finol, President, Petroquímica de Venezuela, SA.

All enquiries should be addressed to: Financial Times Conference Organisation, 125 Jermyn Street, London SW1Y 4JU. Tel: 071-925 2323 (24-hour answering service), Telex: 723747 FTCONF G, Fax: 071-925 2125.

Catalonia's national day, the Diada, is normally a festive affair, but this year's celebrations carried an extra frisson of excitement. Thousands of demonstrators paraded through the streets of Barcelona last Wednesday, carrying banners proclaiming: "Independence is possible." And the spectacle was joined this year by some unusual guests: two Lithuanian MPs and the deputy mayor of Ljubljana, capital of the newly independent Yugoslav republic of Slovenia.

The event illustrated how the collapse of the Soviet Union and the secessionist movements in the Baltics are helping to arouse political stirrings in the far corners of Europe. Ripples from the east are prompting leaders of the country's 17 autonomous regions to hammer ever more loudly on the door of the central government in Madrid, demanding more money and a faster transfer of political power from the centre, and in some cases calling into question the country's very unity.

So far, the response from Mr Felipe Gonzalez, Spain's Socialist prime minister, has been to do very little — understandably perhaps. For the process threatens to weaken the brittle and haphazard system of regional government that has underpinned Spanish democracy since 1978.

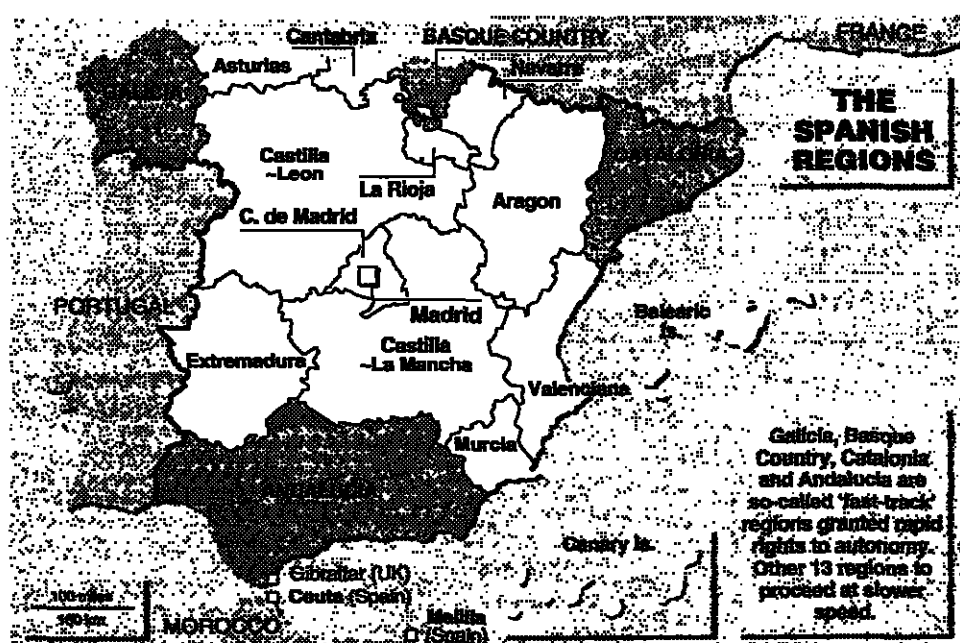
The latest clash between the centre and the regions is mainly a row about money. But even in this sense, it confronts Madrid — struggling to reconcile stubbornly high inflation with a desire to bring the economy closer into line with those of its European Community partners — with a delicate dilemma. The government is already spending vast sums on the regions in order to buy internal peace; indeed, the Bank of Spain bluntly blamed spending by the autonomous regions for the fact that the 1991 budget deficit had overrun by close to 50 per cent by June.

But there is more to the regional leaders' demands. Following EC recognition of the Baltic republics and amid growing sympathy for the plight of Croatia, mainstream leaders from Catalonia and the Basque Country have revived calls for "self-determination", implying the right to opt for independence.

The August revolution [in the Soviet Union] affects everyone. Insists Mr Miguel Roca, leader in the Cortes (parliament) in Madrid of Spain's third largest party, the Catalan nationalist Convergencia i Unió (CiU). "We are in attendance at the burial of centralism. It is dead. The problem here is whether the Socialists

Homage to rights of self-determination

Peter Bruce on the effect of nationalist stirrings in east Europe on the push for devolution in Spain



realise what has happened. The issue may be philosophical at the moment but in a few years it will become practical." Maybe it will not take that long. The Socialists have half the seats in the Cortes. Should Mr Gonzalez lose one more in a general election — the next is due in October 1993 at the latest — he might have to depend on parties such as the CiU or the ruling Basque PNV for support in Madrid.

The current debate has been building for years. Both Catalonia and the Basque Country enjoyed some autonomy before Franco took control of Spain in 1939 and imposed rigid central rule nationwide. They demanded the return of their autonomous status as soon as he died in 1975, with rapid results. Devolution quickly came to be seen as the key to democracy and by the time the Catalan government, the Generalitat, had been restored in 1977, most Spanish regions were pressing for powers from Madrid. The result was the hastily negotiated 1978 constitution, which laid the foundations for a semi-federal state and saw Spain through an attempted coup and into the EC. The problem is that the

document is vague in some key areas — notably on limits to regional autonomy. Between 1979 and 1981 four regions — Catalonia, the Basque Country, Galicia (which also has its own language) and Andalusia — were granted autonomy. The remaining 13 took a slow route, being allowed full autonomy only after five years. In no case was autonomy to be taken as implying independence.

Spain had thus become a hasty federation — Aragon had slightly more status than an English county council and the Basques and Catalans just less than a German Land. The Basque Country collects all its own taxes, while the Catalans cannot but want to; the Catalans have wider powers to use their language than the Basques.

The untidiness of these arrangements reflected sizeable disparities between the regions. In many regions there had never been any demand for autonomy or any strong sense of separate identity. Some, like the Madrid region, were wholly artificial creations. Country-wide devolution was an attempt to forge, out of utterly different circum-

stances, a seemingly coherent policy for all Spain. It was an arrangement imposed from above.

That is why the politics of autonomy in Spain has been so easily ruffled by eastern Europe. The so-called "slow track" regions are now free to opt for full autonomy, and want greater powers. Catalonia and the Basque Country are complaining about delayed implementation of their autonomy statutes. The worry for Madrid is that it will soon be having to contend with 18 or more separate sets of autonomy negotiations in which regions compete to achieve similar powers.

The creativity of the Spanish government is thus about to be seriously stretched. Mr Gonzalez needs to keep the Catalans and the Basques feeling special — they can both claim to be nations with unique cultures and they are Spain's most industrialised regions. But he also made a vague promise in his State of the Nation address last March to negotiate a *pacto autonómico* with the 13 "slow route" regions in order to find an orderly way to increase their powers.

For this promise to retain

credibility, these talks have to begin soon. But even this issue of negotiating the *pacto autonómico* is in danger of becoming overshadowed by arguments between the centre and the regions over money.

The current agreement regulating financial transfers from Madrid to the regions is about to expire — and negotiations on a replacement could not be happening at a worse time. Madrid is having to claw back its 1991 budget overrun and is promising a tight budget next year.

But the regions are becoming more and more expensive. Transfers from the centre to the regions grew by 21 per cent in the first half of this year and spending by the regions themselves has grown to the equivalent of 9.4 per cent of gross domestic product from less than 1 per cent in 1981. The regional authorities have also been borrowing heavily on their own account; their total debt has grown from \$1.2bn in 1984 to \$11bn now. Small wonder that Madrid has been vigorously pressing the EC for the creation of a new compensation fund to channel more Community money its way.

The pressures on Madrid are enormous. This year the government will pay out about \$1bn to subsidise regional public television channels; it is spending heavily on infrastructure projects ahead of the 1992 Barcelona Olympics, and pumping \$8bn into Andalusia to prepare for the 1992 World Exposition in Seville.

If this is political bribery, it may no longer be working. In May the Socialists lost Seville and Valencia in local government elections to regional parties; the regionalists also made impressive gains in Navarre and Aragon.

The true extent of the pressure on the government may become clearer later this month as a result of initiatives by radical parties to the left of the nationalist governments in Catalonia and the Basque Country. The Catalan Esquerra Republicana plans to force a debate in the regional parliament on independence. In the Basque Country, radicals plan to place motions before all town councils calling for independence.

In all probability, the votes will not greatly upset the status quo. But they will raise the intensity of autonomist feeling throughout the country. Spain is already a difficult enough place to govern and Mr Gonzalez will probably do the sensible thing and keep his head down. It is the best way to keep the intensity of regionalist pressures

Samuel Brittan

Calming a storm in a free-market teacup



I do not want to discourage diarists, gossip columnists and the like; but moves are afoot to restore peace to the troubled free-market think tank, the Institute of Economic Affairs. The hope is to end a running battle for the IEA's soul between its present director, Graham Mather, and its two founder presidents, Lord (Ralph) Harris and Arthur Seldon, with Professor Patrick Minford of Liverpool egging on the latter group.

The trustees have expressed their confidence in Mather. But at a meeting next week they hope to appoint additional directors, with Professor Patrick Minford of Liverpool egging on the latter group.

Damage will, however, have already been done in strengthening the misconception that free-market ideas are best discussed in terms of the internal politics of the Conservative party. Press comments have already linked the long-standing complaints to the Charity Commissioners of Labour MP Dale Campbell-Savours that the IEA is a Conservative front organisation with the complaints of Lord Harris — an enthusiastic Thatcher supporter and Bruges Group chairman until last week — that the IEA is too close to John Major.

It would take months to investigate all the allegations and counter-allegations that occur when internal dissensions arise among a small group of previously like-minded people.

Briefly, several different squabbles have come together. One is the concern of Arthur Seldon, the editorial director for several decades, to maintain standards. The studios and thoroughgoing Seldon needs to be distinguished from that prince of intellectual entrepreneurs, Ralph Harris. Seldon's personal leanings have been Liberal, although more towards Lord Grimond than anything more recent. As a longstanding believer in exchange rate discipline, he has never shared the Thatcherite enthusiasm for floating rates. But Seldon has always been worried that Mather — who will have to spend the rest of his life atoning for the fact that he read Law rather than Economics as an undergraduate — would be too interested in matters of political concern to concentrate on fundamental long-term issues.

erite enthusiasm for floating rates. But Seldon has always been worried that Mather — who will have to spend the rest of his life atoning for the fact that he read Law rather than Economics as an undergraduate — would be too interested in matters of political concern to concentrate on fundamental long-term issues.

Seldon's broadside are said to have begun even before Mather took office; and I am reminded of Bruno Walter's habit of starting rehearsals by saying: "Already it is too loud." The warnings about the dangers of being bogged down in immediate issues and in the "politically possible" have been very necessary, but as much towards Harris as towards Mather. For one to call the other too political is like the pot calling the kettle black.

For instance, Mather has been accused of publishing papers in favour of a citizen's charter, which are in fact

The intensity of the dispute reflects the squabbles surrounding Mrs Thatcher's departure

based on lectures he started giving in 1987. Lord Harris, even though he sits on the cross benches, is the founder of the Conservative No Turning Back group, which frequently met in the IEA as the TV cameras discovered during the Tory leadership contest.

My impression is that there has been pretty much the same spread between topical publications and more recondite investigation under both regimes. Mather is criticised for asking John Flemming, the former economic director of the Bank of England, whether it was worth pushing the case for an independent central bank — as if this were giving the Bank of England a veto, rather than an unfortunate *façon de parler* in which most of us engage in probing policy advisers.

The dispute could not, however, have reached its recent intensity without the artificially-linked syndrome of issues

related to the UK exchange rate, the political future of the EC and Mrs Thatcher's departure from Number 10 Downing St. These were highlighted by the letter of the "Liverpool Six", headed by Professor Patrick Minford early this year, pushing for interest rate cuts even at the expense of the UK's ERM commitment.

The background to the letter was the failure of a now defunct IEA "Shadow Monetary Policy Committee" to agree on a letter which all members could sign. Minford's fury was particularly kindled by an interview which Mather gave to the Daily Telegraph, in which the latter criticised the letter for risking unsettling the markets to no good purpose. Tempers were not helped by the interpretation of these remarks as a rebuke to Minford for writing the letter rather than a personal expression of economic opinion of the kind in which Harris has never been slow to indulge.

I must, however, declare an interest. As the author of an IEA study, *How to End the Monetarist Controversy*, I hoped I could help to bring out the common ground between those who preferred an exchange rate target and those who wanted to target the domestic money supply — an issue depending on time and place rather than eternal verities. Minford was however determined to block my membership of the Committee.

As a check on any bias of my own, I therefore contacted Peter Jay, whom no one would accuse of being a member of John Major's kitchen cabinet, and who out-Thatchers Thatcher in his opposition to fixed exchange rates and EC "federalism". His immediate reaction was that although he did not agree with everything written there, there had been a "useful widening of the publishing" agenda under Mather and that it was absurd to build huge personal animosities on differences on monetary and exchange rate policy.

Neither of us should have needed to wonder if it would have been easier to bring together Serbs and Croats than the advocates of internal and external monetary constraints.

LETTERS

Alban Gate, a true landmark

From Mr Iain Watters.

Sir, I could not let Vanessa Boulders' article "Writing on the Wall" (September 9) pass without comment.

I do not wish to suggest in any way that her piece was factually incorrect; it was not. I do feel however that it was balanced against MEPC and Alban Gate in a way which was both unjustified and potentially misleading.

No one denies that the market is in bad shape but there are signs of improvement, and this has been shown by the considerable interest from occupiers now that the project nears completion and can be seen in all its glory. It is of course our challenge to convert that interest into lettings.

Let me finish by posing a question. What would you rather be offering to the market today — a standard specification City office scheme surrounded by many others of a similar nature, or Alban Gate at 128 London Wall, which has:

- A strong image (a true landmark);
- A variety of floor sizes (from 5,000 to 30,000 sq ft);
- An interior committed to providing the occupants with an interesting working environment;
- A "state of the art" technical specification.

Iain Watters, MEPC, 12 St James's Square, London SW1Y 4LB.

Azerbaijani aggression in Nagorno-Karabakh

From Mr Alex Zeytounian.

Dear Sir, Ariane Genillard's report from Nagorno-Karabakh ("Deadlock in an embattled enclave", September 11) reads like a propaganda handout from the Azerbaijani government. The views of the Armenian majority are virtually ignored. This is perhaps not surprising since her visit appears to have been organised by the authorities in Baku.

Firstly, the Karabakh Armenians have always advocated a peaceful solution to the crisis based on the principles of democracy and self-determination. In 1988, the regional parliament voted to leave the control of Azerbaijan after decades of colonial misrule. But, instead of dialogue, the regime in Baku chose to reply with anti-Armenian pogroms in Sumgait, Kirovabad and Baku and blockades against Karabakh and Armenia itself.

Armenian self-defence groups came into existence after two years of appeasement by Moscow of anti-Armenian violence and threats by Azerbaijani leaders to drive the Armenian majority out of their homeland. The Soviet army's response to this was to drop all pretence of "neutrality" and to openly collaborate with Azerbaijan. Since May, Soviet and Azerbaijani helicopter gunships and tanks have uprooted 10,000 Armenians, murdering over 120 in the process. An international delegation

led by Baroness Cox which visited the region in May and again in July found evidence of systematic violation of human rights against Armenians in Karabakh and adjoining Armenian districts of Azerbaijan. Empty Armenian villages had been taken over by Azerbaijani settlers.

Armenian concerns over Karabakh should be seen in the context of the complete colonisation of Nakhichevan. This is located inside Armenia and like Karabakh was handed to Azerbaijan after the Stalin-Ataturk pact of March 1921. Armenians see the takeover of Nakhichevan and the aggression against Karabakh as part of a pan-Turkish campaign that has already resulted in the genocide of 1.5 million Armenians in Turkey.

Nagorno-Karabakh has as much right to self-determination as Azerbaijan itself. Failure to uphold the democratic rights of the Armenian majority means condemning the forcible change of boundaries and encouraging continued bloodshed and suffering. Alex Zeytounian, *Armenian Human Rights Committee*, 24 St Anne's Terrace, London NW8 6PL.

Fax service
LETTERS may be faxed on 071-673 3833. They should be clearly typed and not handwritten. Please use fax machine for fax resolution.

Make rental income tax-free

From Mr Martin Angel.

Sir, The 1988 Housing Act and the introduction of Business Expansion Scheme assured tenants have helped to create a new market in houses and flats to let. Through BES alone, in excess of 10,000 homes are estimated to have been provided.

The availability is considerably swollen by large numbers of owner occupiers and developers who cannot sell (or their perception of value) in the current depressed housing market, opting to let their property instead.

Suddenly, and for the first time since 1939, prospective tenants are finding a choice of properties at competitive rental rates. However, when the market for sales improves, it is reasonable to assume that much of this short-term stock will be withdrawn. When the BES schemes are five years old, most investors will want to realise their investments, but perhaps they could be persuaded to postpone sales if rental income were allowed to be tax-free, even if only for two or three years. This would help to underpin what is still a fledgling market and is important not least because the development of a broad and sustainable rental market would enable significantly greater mobility of the country's workforce.

M J Angel, Allsop & Co, 100 Knightsbridge SW1.

Net book agreement benefits booksellers and the public

From Mr Peter Bell.

Sir, The claim by Terry Maher, chairman of Pentos, that "the fact that one of the four major publishing houses [Reed] has decided to leave the net book agreement has changed things dramatically" ("Pentos shares rise as £2.9m beats City forecasts", September 4) is misleading.

It is also typical of the "hype" generated by Pentos over the last two years, in pursuance of its aim for greater publicity and market share, and its one-company drive to abolish the NBA.

The major book division inside the Reed Group, Octopus Books, has never been a signatory to the NBA, and its

founder and chairman — Paul Hamlyn — has been well known for his opposition to the NBA over many years. All that has changed is that Reed now also owns a number of publishing houses that were formerly independent, and which supported the NBA.

Many independent reports and government inquiries have confirmed the widely-held view that without the NBA there would be fewer books published, fewer stockholding booksellers, prices in general would rise, and the element of customer service in bookshops would decline. In short, the NBA is in the public interest, and without it the public, authors, and the majority of

booksellers, would suffer.

There is some recent evidence to show that bookselling standards, including the all-important willingness to obtain for a customer any one of the half a million titles in print, is on the decline in bookshops operated by the national specialist chains, including the Pentos-owned Dillons bookshops.

In the drive to increase market share and turnover at Pentos it could be argued that service, selection, and the interests of book buyers and the book trade in general is easily discounted. Let us hope that the same will not happen elsewhere just to cut the price of a few bestsellers.

For if the NBA were to be abolished we would all suffer, along with Pentos' profit. Unbeatable competition from WH Smith on price, and from independent booksellers on service, would make Pentos more vulnerable than most to discounting.

It is ironic and perverse that Pentos's figures should have resulted in a share price rise. The moral seems to be that a company doing "something" is perceived as good. Whether that something is in the company's best interests is an entirely different matter.

Peter Bell, Bell's Bookshop, 16 The Shires, Tring, Hertfordshire SG14 8AT.

"Splash"! — see the rapid progress of video communication.



We all know that video communication will continue to spread. So there is no doubt that there will soon be a big boom. The only question is: when will it happen?

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Video messages can now be transmitted worldwide. National and international video communication networks are becoming denser and more efficient all the time. And step by step video communication is making increasing

inroads particularly with large companies.

But the big boom in video communication is still to come.

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INSIDE

Trump shuttle plan fails to take off

Plans by Northwest Airline, the fourth biggest US carrier, to operate the Trump Shuttle have disintegrated after four months of negotiations. Mr Donald Trump (left), the heavily-indebted New York investor, had agreed to give up control of the carrier as part of the restructuring of his faltering empire. **Page 21**

Fed ends the waiting
Last Friday the US Federal Reserve finally did what the markets have been anticipating, and politicians urging, for weeks now: it further eased monetary policy with a half-point cut in the discount rate and a quarter-point reduction in Fed Funds. Martin Dickson reports from New York. **Page 22**

Bonds rally down under
Australian government bonds staged a minor rally last week as the secondary market digested a surprise 100 basis points cut in official cash rates at the beginning of the month. **Page 22**

Banks agree to merge
Two of Austria's largest savings banks, Österreichischer Länderbank and Zentralbank, have agreed to their long-awaited merger. **Page 21**

Italy's future attraction
Competition for investors in Italian government bond futures is expected to heat up this week with the launch of a new futures contract on the London International Financial Futures Exchange (LIFFE). Sara Webb reports. **Page 21**

Drug sales halted
Kabi Pharmacia, pharmaceutical division of Sweden's Procter & Gamble, will stop sales of Micro-Medrol, a treatment for urinary incontinence, after several patients died after using the product. **Page 21**

Hostile bidders
Dowling and Mills, the UK electrical and mechanical repair group, today launches a hostile £13.6m (\$23m) bid for Torday and Carlisle, the engineering group. **Page 20**

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GEC may take Ferranti missile unit

By David White, Defence Correspondent, in London

FERRANTI International is close to agreement on transferring its missile activities to GEC as settlement for an outstanding financial claim.

The transfer of activities belonging to Ferranti's aerospace systems division would resolve a dispute between the two companies over the £270m (\$456.3m) GEC paid last year for Ferranti Defence Systems.

The deal depends on a commitment from the United Arab Emirates on the final stages of a secret contract for air-launched

bombs and missiles. This contract, worth more than £300m, is Ferranti's principal source of guided-weapons business.

GEC's purchase in early 1990 of Ferranti Defence Systems, including airborne radar and navigation equipment, was crucial to the rescue of Ferranti after it was hit by a £215m fraud. But under the deal GEC was able to put the price to arbitration, claiming the Ferranti assets were overvalued.

Last Friday, GEC announced 800 redundancies at the former Ferranti unit.

The outstanding claim is believed to be around £45m. The proposed deal would save Ferranti from pressure on scarce cash resources and enable it to exit an export contract which has run into a payments deficit.

GEC declined to comment on the negotiations, but it is believed to have been near agreement for about two months.

The company has been in discussions in the UAE over payments on the third phase of the Ferranti project.

In the aftermath of the closure

of Bank of Credit and Commerce International, controlled by Abu Dhabi and its ruling family, there have been fears about how much the UAE is prepared to set aside for this and other defence contracts.

The proposed handover to GEC follows the recent sale by Ferranti of the warheads and explosives operations of its Marquardt subsidiary in California to a specially-formed company, MA Acquisition, for \$15m.

The UAE project was inherited by Ferranti from International

Signal and Control (ISC), the US group it took over - with disastrous consequences - in 1987. Other missile contracts listed by ISC proved to be non-existent.

Neither Ferranti nor GEC has been prepared to divulge information about the UAE deal. Both companies say the customer has insisted on secrecy.

As prime contractor, GEC would be expected to maintain supplies from the Ferranti group but could also involve other contractors.

Background, **Page 21**

Nikki Tait reports on plans to overhaul the Philips white goods business by its new owner, Whirlpool

Waiting to see what comes out in the wash

National washing habits are of considerable concern to Mr Jan Prising, 18 months into the job of overhauling Philips's European-based white goods business for its new US owner, Whirlpool Corporation.

He says: "We believe that (the British) will accept top-loading washing machines instead of front-loaders. Or that the French will accept front-loaders instead of top loaders."

US HOME APPLIANCES 1990 market share*	
Whirlpool	32.8
GE	27.0
Electrolux (WCI)	17.2
Maytag	14.6
Raytheon	5.8
Others	2.6

*Clothes washers and dryers, refrigerators, cookers, dishwashers

Whirlpool shares the US market with four others - General Electric, Maytag, Raytheon and Electrolux - and shows minimal growth. This year it declines sharply because of the recession. Analysts say competitive pressure in the US could increase, although Mr Dave Whitwam, Whirlpool's chief executive, disputes this. The European market, by contrast, is divided among dozens of manufacturers and offers healthier, if scarcely buoyant, prospects.

Only then does caution strike. "Of course, this globalisation should not become a buzz-word; we have to consider that there are still local distinctions."

From Whirlpool's point of view, Mr Prising had better be right. This marriage between America's largest manufacturer of major appliances and the former Philips-run operation has been years in the making, and much is at stake.

The US company first acquired 53 per cent of Philips in 1988 for \$470m. It bought the remaining 47 per cent for about \$610m last June. As a result, about one-third of the group's \$5.8bn sales were derived from Europe last year.

Reasons for a substantial investment in Europe are simple.

Analysts view the European challenge as a matter of margin improvement. Attention centres on Germany, which has powered the business lately but may be losing steam.

Mr Nick Heymann, at County NatWest, says: "It's a question of whether cost reductions from distribution, marketing and so on, can offset local market weakness."

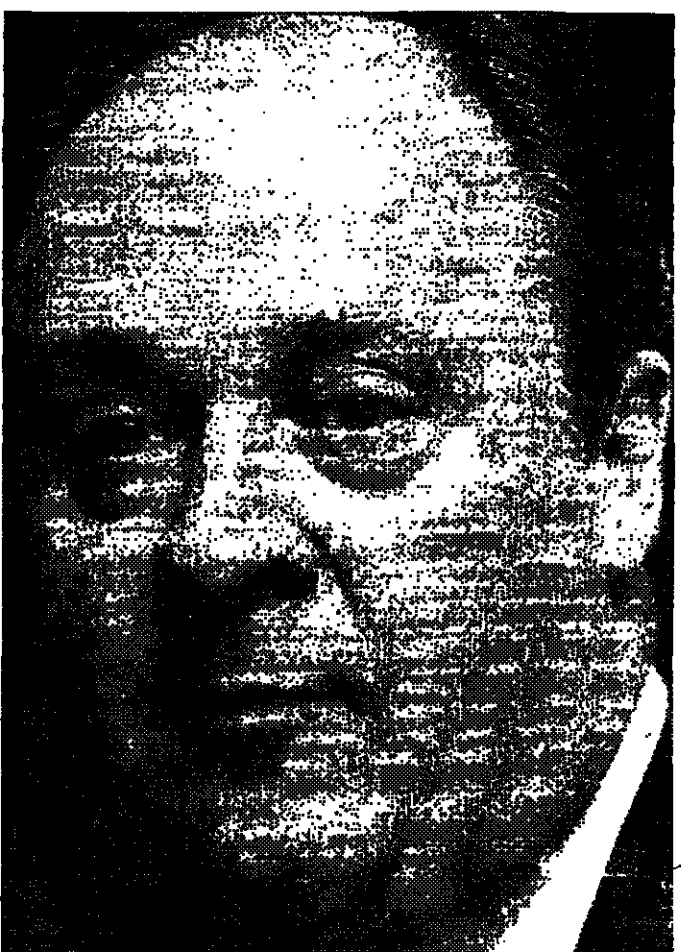
To an extent, Whirlpool concurs. Mr Whitwam has said the aim is to increase margins on the former Philips business. But both he and Mr Prising emphasise this is not the entire game plan.

Mr Whitwam says: "What attracted us to the Philips white goods business was the base which it provided. It had a pan-European manufacturing system, pan-European distribution and pan-European brand awareness. What we are now doing is restructuring that to deal with the realities of the 90s."

It is less easy to elicit details of progress on this strategy, though the company has explained its branding plans. These include a new "Philips Whirlpool" brand, without a hyphen so the Philips name can be dropped when Whirlpool becomes accepted.

In early 1991, marketing support was restructured from country-by-country into two units - one to handle the German-origin Bauknecht brand, and the other for the Philips Whirlpool, Igls and Leden labels. The aim is to push this further.

Mr Prising believes the products can be standardised to a great extent, making few concessions to national prejudices. He maintains that up to 80 per cent of product lines could be



Mr Dave Whitwam: dealing with the realities of the 1990s

unique to one country but that this figure could be cut "considerably".

Distribution, too, has moved from a national to a Europe-wide set-up. And Mr Whitwam points to duplications which could be eliminated, such as research and development.

Mr Whitwam contrasts the manufacturing possibilities with Whirlpool's recent restructuring in the US. "We've taken off 20 per cent of the manufacturing floor-space in the US. We will do that in Europe if it's necessary to maintain or improve our competitive position, but today we don't have any of those opportunities identified."

He adds: "The European business was more efficient than most people give it credit for - it had been through a significant rationalisation before we bought it. It was a business which had a healthy plant and capital structure, the tooling and all those things were up-to-date."

Both men are unwilling to set deadlines for completing the overhaul of Philips. Mr Prising talks about the problems of changing attitudes within Philips and the rapidly changing European environment.

Mr Whitwam is more helpful: "Jan's process probably has an end-date about 12-18 months from now."

VRN issue raises \$250m for Credit Lyonnais

By Simon London in London

CREDIT LYONNAIS has raised \$250m of capital through an issue of variable rate notes, the first such issue for nearly a year and a move which bankers hope will re-open a valuable source of capital for international banks.

Until last year the VRN market was one of the few reliable sources of capital for international banks, with \$8bn issued over two years. However, concern over the deteriorating credit quality of many banks caused investors to desert the market. The last new issue was in October 1990.

The Credit Lyonnais issue, arranged by Merrill Lynch International, underlines the determination of banks to raise capital in spite of difficult market conditions. The terms are the most generous seen on a VRN issue.

Banks are under pressure to build capital resources to comply with the Basle accord on international bank capital adequacy from January 1993.

The agreement sets a minimum capital-to-assets ratio of 8 per cent. Half of this capital must be Tier I, comprising common equity and preference shares. The rest can be Tier II capital including subordinated instruments such as variable rate notes, reserves and certain provisions.

Last week National Westminster bank raised £140m and \$200m of core capital through issues of preference shares in the UK and US markets.

The interest margin on variable rate notes is reset at regular intervals through an auction process. At each auction noteholders either specify the interest margin at which they are prepared to hold the paper or opt to sell the bonds back to the "remarketing agent", an investment bank which manages the auction process.

However, the cost of capital to the issuer is subject to an upper limit. If too many investors try to sell the bonds back to the remarketing agent the auction process is suspended and the notes pay the full-back margin.

The undated Credit Lyonnais issue pays an interest margin of 0.85 per cent over the three-month London interbank offered rate. If the auction process is suspended the notes revert to a full-back margin of 1 per cent over Libor.

The issue is cumulative - if interest payments are suspended they must be paid for payment at a later date. The bank will pay interest on any suspended interest payments.

THE European Monetary System may be on the threshold of significant change.

The EMS has been dominated by the D-Mark and the Bundesbank for as long as anyone can remember. Early ideas that the Ecu or European Currency Unit should be "at the centre" of the EMS were supplanted by the reality of the D-Mark acting as the system's counter-inflationary anchor.

It was a role that at first irritated the German monetary authorities but which later became a matter of pride for Mr Karl Otto Pöhl, the former Bundesbank president. A fleet-footed visit to Frankfurt last week was sufficient to raise questions as to whether this state of affairs can continue.

One veteran observer of the European monetary scene said conditions in Germany now reminded him of Britain in 1968, when the Lawson boom was underway. A new tolerance of inflation was unmistakable in conversations with long-standing business acquaintances.

In the past, consumer prices rising in the former west Germany at annual rates of above 4 per cent in July and August would have caused a shock. Last week, such figures prompted a shrug of the shoulders and a passing reference to the costs of unification.

Obviously, such contacts do not amount to hard evidence of a change in attitudes. And pitched against such views is the might of the Bundesbank and the determination of its new president, Mr Helmut Schlesinger, to bring inflation back to an average 2 per cent in the years ahead.

But in an interview with Les Echos, the FT's French sister paper, last week, Mr Schlesinger was candid about the problems facing Germany.

The Bundesbank could not be content that the headline rate of inflation had fallen from an annual 6.4 per cent in July to 4.1 per cent in August. It had to be on its guard against a resurgence of inflationary expectations. It was especially concerned about prices rising in the construction sector by more than 10 per

German winds of change blow over the EMS

cent as well as higher rents and land prices. Above all, it was concerned by higher wage and salary costs.

Mr Schlesinger said that demand in Germany was running ahead of supply. Evidence of this was a record pan-German current account deficit of DM5.8bn in July.

Such concerns have triggered alarm bells in the City of London. Mr Paul Chertkow, Citibank's currency economist in London, argues that the last

month's 0.25 percentage point increase in the German lombard rate to 9.25 per cent was insufficiently rigorous given the inflationary pressures in the German economy and in particular in view of an escalation of wage claims to 10 per cent in some cases.

Last week, Warburg Securities' economists Mr Ian Hargrave and Mr Magnus von Wistinghausen said they were convinced that the Bundesbank would have to tighten monetary conditions again to hold domestic inflationary expectations in check and discourage an inflationary pay round in 1991-92.

Economics Notebook By Peter Norman

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All of which brings us back to the EMS. No fewer than five EMS members had inflation rates lower than Germany in July. There is moreover, every chance that Britain's headline rate of retail prices inflation will drop below the comparable German rate in October.

If Germany is forced to raise interest rates in the months

ahead, how will these countries react? The question is particularly acute for some of Germany's partners in the narrow band of the EMS exchange rate mechanism.

Last week, short-term money market rates in Paris, Amsterdam and Brussels were all hovering around German levels. The Belgian National Bank deliberately engineered its one-month and overnight rates higher to prevent them falling below comparable German

At present neither the Bank of England nor the Treasury believe that short-term British rates can fall below German levels. However, this view might change if the UK is seen to be more successful in controlling inflation and if the continental currencies, led by the French franc, break through the EMS interest rate floor set by the D-Mark.

Slow Progress

Senior officials from the Group of Seven leading industrial countries met in Dresden at the weekend to discuss how best to help the Soviet Union out of economic malaise.

If the experience of the International Monetary Fund in eastern Europe is any guide, they should brace themselves for problems more difficult than anything they can imagine.

● Bahram Nowzad, the IMF's chief editor, told a meeting of the Overseas Development Institute in London that carrying through the economic transformation of the former Communist states has been far harder than expected.

● The Fund had learned that it was far easier to kill a market than to create it.

● The declines in output and employment associated with economic restructuring had been far greater than anticipated.

● It had emerged that micro-economic aspects of reform, ranging from the introduction of Western-style accounting methods to the restructuring of industrial production, were of critical importance to the progress of macro-economic reform and made it more complex.

● The time needed to effect changes such as price reform or linking the former communist countries to the world economy took longer than anticipated. In the process a great deal of the capital stock of the countries in transition turned out to be obsolete.

Western policy makers are not to be envied. The problems of the Soviet Union are far greater than those of eastern Europe and the need for solutions more urgent.

Warburg claims Treasury bid error

By Simon London

S.G. WARBURG has given its first full public account of why it did not inform US officials in April that a \$3.5bn false bid at a Treasury auction had been made in the name of Mercury Asset Management, its investment management subsidiary, by Salomon Brothers.

In a statement yesterday, Warburg said it was first aware of a false bid in the name of Mercury in mid-April following a routine letter from the US Treasury.

The letter said future bids from Warburg and Mercury would be aggregated as part of the process to prevent one group buying more than 35 per cent of a Treasury auction.

The letter referred to a \$3.5bn bid in the name of Mercury in the February auction - 35 per cent of the \$9bn auction - and a \$100m bid by Warburg.

In fact Mercury had made no bid. A copy of the letter was sent to Mr Paul Mozer, since dismissed as head of bond trading at Salomon Brothers.

According to Warburg, Mozer explained that "a bid had been mistakenly submitted in Mercury's name due to a clerical error at Salomon, that the mistake had been promptly caught and corrected internally and that the proper bidder had in fact been allocated the securities."

According to Warburg, Mr Mozer said he would report the error to the Treasury. Mercury accepted this and did not tell the Treasury that it had not submitted the February bid.

Warburg said: "Clerical errors are not uncommon in paper-intensive and time-critical business such as the auction process in US government securities."

Kleinwort Benson Securities

Kleinwort Benson Securities advised
Rechem Environmental Services PLC
on the £172 million recommended offer from Shanks McEwan PLC

Kleinwort Benson Securities advised
The Robertson Group plc
on the £49 million recommended offer from Simon Engineering plc

Kleinwort Benson Securities acted as joint stockbroker to British Bio-technology Group plc
on its £40 million private placement
Kleinwort Benson Limited acted as financial adviser

Kleinwort Benson Securities acted as sponsor to Lowndes Lambert Holdings
on its recent £67 million flotation

Kleinwort Benson Securities acted as joint stockbroker to Trafalgar House PLC
on its £310 million rights issue
Kleinwort Benson Limited acted as financial adviser

Kleinwort Benson Securities acted as stockbroker for Y J Lovell (Holdings) plc
on its recent £31 million rights issue
Lazard Brothers & Co Ltd acted as financial adviser

Kleinwort Benson Securities, 20 Fenchurch Street, London EC3P 3DB
Issued by Kleinwort Benson Securities Limited, a member of the Stock Exchange, of the SFA and of the AIBD

WOOLWICH
— BUILDING SOCIETY —**£250,000,000**

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 11th December, 1991 has been fixed at 10.25% per annum. The interest accruing for such three month period will be £255.55 per £10,000 Bearer Note, and £2,555.48 per £100,000 Bearer Note, on 11th December, 1991 against presentation of Coupon No. 7.

London Branch
Agent Bank

11th September, 1991

**Australia and New Zealand
Banking Group Limited**

U.S. \$200,000,000

Subordinated Floating Rate Notes due 1998

For the six months 13th September, 1991 to 13th March, 1992 the Notes will carry an interest rate of 6% per annum with an amount of interest U.S. \$3,159.72 per U.S. \$100,000 denomination, payable on 13th March, 1992.

Listed on the Luxembourg Stock Exchange.

Bankers Trust
Company, London

Agent Bank

The Bear Stearns Companies Inc
(A corporation organized under the laws of the State of Delaware, USA)

U.S. \$200,000,000

Floating Rate Notes due 1994

For the three month period 13th September, 1991 to 13th December, 1991 the Notes will carry an interest rate of 9% per annum with an interest amount of U.S. \$146.93 per U.S. \$100,000 Note payable on 13th December, 1991.

Bankers Trust
Company, London

Agent Bank

U.S. \$200,000,000

MARINE MIDLAND
BANKS, INC.Floating Rate
Subordinated Notes Due 2000

Interest Rate 5.8875% p.a.

Interest Period 15th September 1991
15th December 1991Interest Amount per
U.S. \$100,000 Note due
15th December 1991 U.S. \$718.84Credit Suisse First Boston Limited
Agents

US \$53,750,000

European Investment Bank

Floating Rate Notes due 2008

For the period from September 16, 1991 to
March 16, 1992 the Notes will carry an
interest rate of 6% per annum with an
interest amount of US \$29.07 per
US \$1,000.The relevant interest payment date will
be March 16, 1992.Agent Bank:
Banque Paribas Luxembourg
Société Anonyme**FullerMoney**
The International
Investment Letter by
David Fuller
of Chart Analysis LtdFor details of our
introductory offer
call
Barbara Wardle
01753 621222 (9am-5pm)
Fax 01753 621222**COMPANIES AND FINANCE****Dowding
& Mills in
£14m bid**

By Richard Gourlay

DOWDING & MILLS, the electrical and mechanical repair group, today launches a hostile £13.6m bid for Torday & Carlisle, the engineering group.

The 7-for-5 all-share offer values the Torday & Carlisle shares at 84.7p, about 33 per cent above Friday's closing price.

Mr Jim Cole, the Dowding chief executive, said Torday's Diesel Marine International (DMI) and Elfab Hughes engineering companies would fit well with existing businesses and that the loss-making Oldham Signs would be sold.

Dowding said that on Friday it bought 5.9 per cent of Torday's shares in the market at 63.5p.

A spokesman for Torday said the board would meet this morning to consider the offer. He said that DMI, one of the world's largest refurbishers of diesel engines, and Elfab Hughes, a maker of valves for the petrochemical industry, were both profitable.

County NatWest, the company's brokers, expects Torday to incur a loss for the full year. At the interim stage it reported a pre-tax loss of £634,000 compared with a £1.52m profit in the comparable period in 1990.

Pre-tax profits at Dowding and Mills fell 9 per cent to £5.11m in the six months to December.

Mr Cole said Dowding had approached Torday last October to talk about buying DMI. Dowding was told the company was not for sale.

In April, some institutions were surprised when Sir Michael Carlisle, a non-executive director, sold half his stake in Torday & Carlisle at 150p only weeks before the company warned that losses would increase in the second half.

The Torday spokesman said Sir Michael had no knowledge that a profits warning was to be made.

Mr Paul Torday, the chairman, and Mr Humphrey Odd, the finance director, sold shares on March 25 at 145p in order to exercise options.

The spokesman said these transactions increased their stakes in the company.

Mystery project on the verge of a third phase
David White charts the history of Ferranti's largest remaining missiles contract

THROUGH all its troubles, Ferranti International has tried to maintain secrecy about one of the world's most puzzling arms contracts. The fear has been that a burst of publicity could cause the contract, involving a unique range of air-launched weapons for the United Arab Emirates, to fall through, severely damaging Ferranti's recovery efforts.

The first official mention of the contract, worth more than £300m, came last year when Ferranti referred to "a major and profitable contract to produce a family of missiles for an overseas customer."

Shrouded in mystery, the project known as Al-Hakim is the biggest single development and production contract held by Ferranti since it sold off the "jewels" of its business including airborne radar - to GEC early last year.

The project is almost Ferranti's only business remaining in missiles, following the RAF's decision to withdraw its ageing Bloodhound air defence missiles from service this year.

Ferranti's ambition to develop its interests as a missile manufacturer were central to the idea of taking over International Signal and Control (ISC) of the US in 1987. Buying ISC, which was built up and

sold to Ferranti by Mr James Guerin, exposed Ferranti to a fraud costing it an estimated £215m.

Now Ferranti is on the verge of transferring its missile business, with the UAE contract, to GEC as settlement for the excessive price GEC reckons it paid in its £270m purchase of Ferranti Defence Systems.

The transfer depends on GEC being able to secure UAE finance for the third and most ambitious phase of the project. The early stages were funded by prepayments made to Ferranti in 1987 and 1988, but a cash deficit subsequently built up.

Defence experts are astounded by the scale of the project for a small country like the UAE - a large number of weapons, including some with a capability beyond any that Britain's Royal Air Force possesses.

Even the project's title is a mystery. Ferranti says it has never known it as Al-Hakim. Under ISC, which is believed to have concluded the deal in 1984, it appears to have gone by the name of Alpha. Engineers at Dassault, the French aircraft company which has the task of fitting the weapons on the UAE's fighters, refer to it as the GMX project.

The programme caused a



James Guerin: sold ISC to Ferranti in 1987

row between the UAE and the French because of the difficulty of incorporating the weapons on Mirage 2000 jets.

French policy is to export aircraft with all weapons included. The UAE turned down alternative French weapons, and Mirage deliveries were delayed.

Earlier this year two Mirages in desert camouflage belonging to the UAE's air force, were seen at Dassault's test centre at Istres in southern France being fitted with special laser "pods".

The system being developed by Ferranti is described as more sophisticated than the AS.30 laser-guided air-to-surface missile which the French air force employed in the Gulf war. The RAF has been seeking a "stand-off" anti-armour weapon but has so far failed to obtain Treasury approval to fund development.

The first two phases of the UAE programme involve 500-pound and 1,000-pound guided bombs, similar to some of the bombs used by allied forces to attack Iraqi military installations.

The third phase, adding a rocket motor, is thought to be similar to the US Maverick missile, made by Hughes Aircraft and Raytheon. This has been supplied to several other Middle East countries including Saudi Arabia, Israel and Egypt.

UK Ministry of Defence officials raised questions about the ISC/Ferranti project in 1989. It is thought that ISC may have invented an additional, non-existent contract with the UAE in parallel with the genuine deal - one of the series of phony contracts involved in the fraud.

According to a former senior official, the MoD intervened in

early 1989 to alert the UAE authorities to its worries about the project. In particular, it was believed that South Africa was involved in developing the rocket motor for the missile. Ferranti representatives have, however, denied any South African connection.

The programme has since been quietly going ahead, with deliveries proceeding for the first two stages. The weapons involve production both in the UK and in the US at Ferranti Aerospace Inc. Export licences are understood to have been issued by both governments.

GEC has remained silent about its interest in taking over the project. However, the missile activities now concentrated in Ferranti's Aerospace Systems division would clearly help the GEC-Marconi defence group to build up its own missile business and its capacity to design whole weapons.

Traditionally a supplier of guidance systems, GEC-Marconi is now seeking to enter the business as a prime contractor. In an alliance with Matra of France it is competing against Aerospace to produce a new air-to-air missile for the RAF. It would also be a prime candidate to develop a stand-off anti-armour missile if and when the UK decides it can afford one.

NEWS DIGEST**Elys drops
36% to
£203,000**

ELYS (Wimbledon), the department store retailer, recorded a 36 per cent decline in profits in the half-year to August 3, citing the severe recession in the south-east of England and the increase in the rate of VAT as the main causes.

On a marginal increase in turnover from £5.58m to £5.72m, pre-tax profits fell from £318,000 to £203,000 in the period under review.

Mr John Moyle, chairman and managing director, said there was still little evidence yet of an upturn in the non-food retail sector. He warned that if there was no recovery in retail spending in the tradi-

tionally stronger second half, there would be a substantial drop in this year's profits.

Earnings per share declined to 11.2p (17.2p), the interim dividend is however, maintained at 1.5p.

**Beradin advances
to £56,000**

Beradin Holdings, the rubber and palm oil producer, lifted pre-tax profits from £44,000 to £56,000, an investment trust managed by GT Management, stood at 177.5p at July 31 1991, compared with 190.6p a year earlier and with 143.2p at

the January 31 year end. Profits before tax at the interim stage came through at £169,000, unchanged from the figure a year earlier. Earnings per share were, however, up slightly at 2.3p (2.1p).

Again there is no interim dividend.

**Berry Starquest
net assets at £77.5p**

Net asset value per share at Berry Starquest, an investment trust managed by GT Management, stood at 177.5p at July 31 1991, compared with 190.6p a year earlier and with 143.2p at

the January 31 year end. Profits before tax at the interim stage came through at £169,000, unchanged from the figure a year earlier. Earnings per share were, however, up slightly at 2.3p (2.1p).

Again there is no interim dividend.

**£8m buy-out at
Deans Farm Eggs**

Dalgety, the food and agribusiness group, is selling Deans Farm Eggs to a management team led by Mr Peter Dean, its chief executive.

Total consideration for the

net assets is £8m, of which £5m will be paid on completion and the remainder over four years.

**Thomas Walker
falls 81% to £55.81p**

Pre-tax profits of Thomas Walker, maker of smallwares for the clothing industry, fell 81 per cent from £288,176 to £55,815 in the year to June 30 1991.

Earnings per share declined to 0.38p (3.36p) and the directors are recommending a reduced final dividend of 0.7p (1.23p) making 0.875p (1.48p) for the year.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Neste (Finland)	Sovereign Oil & Gas (UK)	Oil and Gas	£90m	OTI to scrutinise
Eramet (France)	Kloster Speedsteel (Sweden)	Steel	£75m	Kinnreks sells, improves finances
Bilfinger & Berger	Beazer Asia (Hong Kong)	Construction	£35m	Beazer refocusing disposal
Southern Bell (US)	Telefonos de Mexico (Mexico)	Telecoms	£270m	Stake doubled to 10%
Statoll (Norway)	Verbundnetz (Germany)	Gas Supply	£17m	Statoll takes 5% stake
Jinro Group (S Korea)/Adolph Coors (US)	JV	Brewing	£35m	65-35 ownership split
Denle Bell (US)	Coal Contractors Holding (UK-owned)	Mining	£2m	Conditionally agreed sale
American Home Products (US)/Eisai (Japan)	Wyeth-Eisai (JV)	Pharmaceuticals	£8.6m	Trend for US-Japan links
Alexander Proudfoot (US)	Indeva (Sweden)	Consultancy	n/a	Search for parent ends
St Gobain (France)	Oberland Glas (Germany)	Glass	n/a	Stake lifted to 60%

The recent burst of activity in the oil and gas sector continued last week with two deals highlighted by Reuters. The first was the acquisition of Sovereign Oil & Gas which it does not already own, remains a significant step in its strategy of expanding its exploration and production activity in the UK continental shelf. The bid also put the UK government's attempt to control the acquisition of British companies by foreign state-owned groups back in the spotlight. The OTI said it will consider the benefits of having state control before deciding whether to refer the bid to the Monopolies and Mergers Commission.

Heath also announced the industry's second major agreement to a £1.2bn deal to sell the British Isles. Heath will hold 50 per cent of a joint venture it set up with South Korea, called Eramet, to build a petrochemical products terminal at Telford's New Port. The project is budgeted to cost around £100m.

Norwegian state oil company Statoil confirmed the purchase of the 5 per cent stake in eastern Germany's Verbundnetz Gas which it was offered last January.

Elsewhere, the picture was again very much dominated by joint ventures, the acquisition of strategic stakes, intentions to acquiring stakes and finance-driven sales.

Kinnreks is planning a bid with its agreement with Korea Investment Trust Company - the M&A of South Korea - to form Korea Investment Management Europe. This City-based company is the first South Korean-UK investment joint venture, says Kinnreks, which will own 20 per cent of the venture.

The joint venture between American Home Products and Tokyo-based Eisai confirms the proposed trend towards links between US and Japanese pharmaceutical companies.

In the world that troubled construction group Beazer published the preliminary prospectus for the planned float of its UK manufacturing, contracting and property group, the sale of its Hong Kong-based Beazer Asia unit as part of its debt reduction and restructuring programme passed almost unopposed.

The sale of Eramet Speedsteel to French state-controlled industrial group Eramet should help Swedish investment group Kinnreks improve its financial position.

This announcement appears as a matter of record only

September 1991

**£105,000,000**

Revolving Credit and Acceptance Credit Facility

Arranged by

Morgan Grenfell & Co. Limited

Provided by

The First National Bank of Chicago

Morgan Guaranty Trust Company of
New York

Barclays Bank PLC

Morgan Grenfell & Co. Limited

The Royal Bank of Scotland plc

Swiss Bank Corporation

BfG-Bank AG, London Branch

Crédit Lyonnais

Morgan Grenfell (C.I.) Limited

National Westminster Bank PLC

Robert Fleming & Co. Limited

Royal Bank of Canada

Union Bank of Switzerland

Agent

Morgan Grenfell & Co. Limited**CNT**Caisse Nationale des
Télécommunications
FF 2,000,000,000Floating Rate Bonds
due 1997

Notice is hereby given that for the interest period 13th September, 1991 to 13th December, 1991 the Bonds will carry a Rate of Interest of 9% per cent. per annum with a Coupon amount of FF 238.56 per FF 10,000 Bond and FF 2,385.89 per FF 100,000 Bond. The relevant Interest Payment Date will be 13th December, 1991.

Bankers Trust
Company, London Agent Bank**FLASH LIMITED SERIES G**U.S. \$30,000,000
Secured Floating Rate Notes
Due 1993

In accordance with the conditions of the notes, notice is hereby given that for the three-month period 16th September 1991 to 16th December 1991 (91 days) the notes will carry an interest rate of 5.775% p.a. Relevant interest payments will be as follows:

Notes of U.S. \$100,000
U.S. \$1,459.78 per coupon.
THE SANWA BANK LIMITED
Agent Bank

**OTTOMAN BANK
Interim Statement**

The Group result after tax attributable to shareholders for the six months ended 30 June 1991 was a profit of £10,349,000 (£866,000 loss). This result, which has not been audited, is equivalent to a profit per share of £20.70 (£1.73 loss) and is made up as follows:-

£000s	1991	1990
Turkey	8,868	2,168
Translation loss on capital	(3,452)	(3,310)
Turkey Net	5,416	(1,148)
Outside Turkey	4,933	282
	10,349	(866)

In Turkey the business of the Group, compared with the same period last year, made good progress following the implementation of the revised business strategy mentioned in the last Annual Report. Net interest increased substantially and fee income from commissions and profit on exchange transactions both showed good growth. The business in Turkey continues to develop well and the trading result for the full year, expressed in local currency, is expected to exceed that of last year by a comfortable margin. However, the Turkish Lira continues to depreciate against sterling, falling by 25% since the year end to 6,993 on 30 June. It has since fallen by a further 15% and shareholders are reminded that the sterling value of the half year profit shown above will be reduced in the year end accounts when expressed at the exchange rate on that date. Nevertheless, the net result for the full year expressed in sterling is expected to be significantly better than that of last year.

Outside Turkey the half year result of the investment activities improved following the switch to liquid assets with high levels of interest. As a result the Group result for the full year should be significantly better than that for 1990.

As is customary, no interim dividend is to be paid.

The plans to restructure the Group are being pursued and shareholders will be kept informed of developments.

13 September 1991

COMPANIES AND CAPITAL MARKETS

Austrian banks reach agreement on merger terms

By Judy Dempsey

TWO OF Austria's largest savings banks, Österreichische Länderbank and Zentralsparkasse, have agreed their long-awaited merger.

The link will create the country's largest financial institution, with combined assets of US\$40bn.

It is also likely to make the country's banking system more competitive, on both the domestic and international markets.

The new bank, which will be called Z-Länderbank, Bank Austria, and which will have more than 400 branches, will start operations on October 7.

Domestically, the bank will dominate the retail market and the combination of the two will produce 1m customers. More than 96 per cent of Zentralsparkasse's total liabilities consisted of savings deposits, compared with Länderbank's 17.9 per cent.

Internationally, it will concentrate on building up a profile in eastern and western Europe. Foreign business makes up almost 40 per cent of Länderbank's total assets, compared with 19.5 per cent for Zentralsparkasse.

The delay in finalising the merger, first mooted in 1988, hinged on reaching agreement on the allocation of shares.

The Republic of Austria had held a 51 per cent stake in Länderbank, but this will be reduced to 26 per cent because Länderbank will own half the new bank.

In the case of Zentralsparkasse, whose supervisory board is controlled by the City of Vienna, 58 per cent of the voting capital will be held by Antelverwaltung-Zentralsparkasse, the holding company of Zentralsparkasse, and 26 per cent of the voting capital by the Republic of Austria.

Three investment funds target eastern Europe

By Judy Dempsey

CREDTANSTALT-Bankverein, Austria's biggest bank, is preparing to launch three investment funds targeted for Poland, Hungary and Czechoslovakia, despite the recession in the region.

"The bank says the funds are aimed at western institutional investors, and will focus on those enterprises in central Europe already exporting to hard currency countries."

The first fund, CA Hungary Investment Partners, which will initially amount to \$70m, will invest in small and medium-sized unlisted companies and ventures in Hungary.

Mr Robin Nides, of Creditanstalt Investments International, says he is optimistic despite economic uncertainties such as last year's 5.6 per cent fall in GDP, an annual inflation rate of 39 per cent, and the collapse of trade with Communism, the former socialist trading bloc.

Despite the instability in the Soviet Union, the consensus among Creditanstalt and merchant bankers in London is that the rewards in investing in eastern Europe may begin to outweigh the risks.

AMB stake confirmed by French insurer

By Katharine Campbell in Frankfurt and William Dawkins in Paris

ASSURANCES Générales de France has confirmed that it has acquired a 15 per cent stake during the past 18 months in Aachener & Münchener Beteiligung, the German insurance company, at a cost of FF1.5bn (\$260m).

However, AMB said that since Assurances Générales had not applied to register its shareholding, it could not estimate the size of the stake. AGF said part of its 15 per cent was registered, but did not disclose the proportion.

Earlier in the year AMB announced it was not prepared to register the AGF holding, so the French are unlikely to apply for registration unless they detect a change of heart in Germany.

AMB has confirmed it is in co-operation with AGF, but has also made clear that its preferred European strategy would revolve around developing closer ties with Royal Insurance and Fondiaria. Royal, however, which has an 18.8 per cent stake in AMB, is struggling with losses and is assumed to be looking for a buyer for its holding.

AMB has poured vast resources into shoring up the balance sheet of BFG Bank, the ex-trade union bank it bought with the aim of opening up new sales channels, at the expense of developing a wider European presence.

Procordia to withdraw drug

KABI Pharmacia, the pharmaceutical division of Sweden's Procordia, is to stop sales of the drug Micro/Mitirin after several patients died following use of it.

Sales of Micro/Mitirin, the leading drug for urinary incontinence, amounted to SKr200m of Kabi Pharmacia's total turnover of SKr8.4bn (\$1.4bn) in 1990. Between 1.5m and 2m patients have been treated with it. Reports to Kabi showed that at least eight patients had died following abnormal heart beats.

Northwest Airlines abandons plans to operate Trump Shuttle

By Karen Zagor in New York

PLANS by Northwest Airlines, the fourth biggest US carrier, to operate the Trump Shuttle have disintegrated after four months of negotiations.

The deal fell apart after Northwest failed to reach an agreement with the International Association of Machinists on acceptable labour contracts. The union represents more than 100 Trump Shuttle baggage handlers and other workers at Northwest. Tentative agreements were reached with other unions representing Trump Shuttle employees.

Mr Donald Trump, the heavily-indebted New York investor who bought the Washington-New York shuttle service from Eastern Air Lines several years ago, had agreed to give up control of the carrier as part of the restructuring of his faltering empire. The Northwest deal would have freed Mr Trump from a bank loan of \$135m he had personally guaranteed when he borrowed \$380m to buy the shuttle.

In July, Northwest reached an interim agreement with Trump's banks, led by Citicorp, to operate the carrier for a fee for about 10 years.

Mr Richard Cozzi, president and chief operating officer at the Trump Shuttle, said the end of discussions "will have no impact on the operations of the Trump Shuttle".

Trump Shuttle said other parties had expressed interest in acquiring or managing the shuttle, and that airline officials were optimistic that an arrangement could be reached quickly.

Analysts, however, said similar union issues might make it difficult for other airlines to step in and manage the shuttle.

Investors await Liffe Italian bond contract

By Sara Webb

COMPETITION for investors in Italian government bond futures is expected to hot up this week with the launch of a new futures contract on the London International Financial Futures Exchange (Liffe).

Liffe is due to launch its Italian government bond futures contract on Thursday, just two weeks after the well-received launch of an Italian bond contract on the Paris-based Matif futures exchange.

The Matif contract has traded at levels well above expectations. After starting with a daily volume of 7,098 contracts, it climbed to a daily volume of more than 12,000 contracts at the end of last week, and recorded a high last Tuesday of 14,454 contracts.

By contrast, Liffe has indicated that its Italian bond futures contract was expected to show a daily volume of between 1,000 and 2,000 contracts initially.

"It is always very difficult to project volumes, but we know there is a need for a hedging instrument given the very strong cash market," the exchange said.

Demand has been strong for an Italian futures contract in order to help traders and investors hedge their positions, although there has been some speculative interest from local traders. In addition, the launch of the new Matif contract has been helped by the recent heavy volumes in the underlying cash market.

Italy had one of the best-performing government bond markets last week and showed record trading volumes, helped by keen buying interest from foreign investors. Foreigners have been tempted back into the Italian bond market on news that withholding tax payments will soon be reimbursed.

NRI TOKYO BOND INDEX

PERFORMANCE INDEX

December 1983 = 100

Average yield (%)

Last week

12 wks ago

26 wks ago

Overall

Government Bonds

Financial Bonds

Govt-guaranteed Bonds

Bank Deposits

Corporate Bonds

Venture, Foreign Bonds

Government 10-year

Estimated day yield

Source: Nomura Research Institute

Gulf bank appoints US executive

GULF INTERNATIONAL Bank (GIB), a Bahrain-based offshore bank that suffered during the Gulf crisis, has recruited a US banker to a key management position, AP-DJ reports from Manama.

Mr Peter Sura, formerly a senior vice-president with Manufacturers Hanover Trust, has been appointed GIB's assistant general manager for banking, ranking second to the bank's Saudi general manager Mr Ghazi Abdul-Jawad.

The American replaces Mr Mohamed al-Moammar, who is leaving to pursue private business interests, GIB said.

GIB is owned by the governments of Saudi Arabia, Bahrain, Kuwait, Qatar, Oman, the United Arab Emirates and Iraq. The bank suffered a sudden squeeze in its liquidity during the seven-month Gulf crisis, and was forced to sell off many assets.

Cyprus Airways remains in the red

CYPRUS Airways lost C\$900,000 (\$1.9m) in 1990 because of the Gulf crisis and expects the repercussions to affect its 1991 performance, Reuters reports from Nicosia.

Mr Kiki Lazarides, chairman, said the company had been operating profitably before the war. The group made a C\$1.4m loss in 1988.

KOREA FIRST BANK
(Incorporated with limited liability in the Republic of Korea)

U.S.\$50,000,000

Floating Rate Notes Due 1998

In accordance with the provisions of the Floating Rate Note, notice is hereby given as follows:

Interest Period : September 13, 1991 to March 13, 1992 (182 days)

Rate of Interest : 6% per annum

Coupon Amount: US\$3,033.33 per denomination (US\$100,000.00)

Agent



LTCB Asia Limited

NOTICE OF PREPAYMENT

Nordiska Investeringsbanken
(Nordic Investment Bank)

DKK 250,000,000

10 1/4 per cent. Notes due 1993

In accordance with paragraph Optional Redemption of the Description of the Notes, notice is hereby given that Nordiska Investeringsbanken will redeem, on October 16, 1991 the total amount remaining outstanding of the above-mentioned Notes (i.e. DKK 250,000,000) at 100 1/2% of their principal amount.

Payment of interest and premium due on October 16, 1991 and reimbursement of principal will be made in accordance with the Description of the Notes.

Interest will cease to accrue on the Notes as from October 16, 1991.

Luxembourg, September 16, 1991

The Fiscal and Principal
Paying Agent

KREDIETBANK
S.A. LUXEMBOURGEOISE

PNC Financial Corp

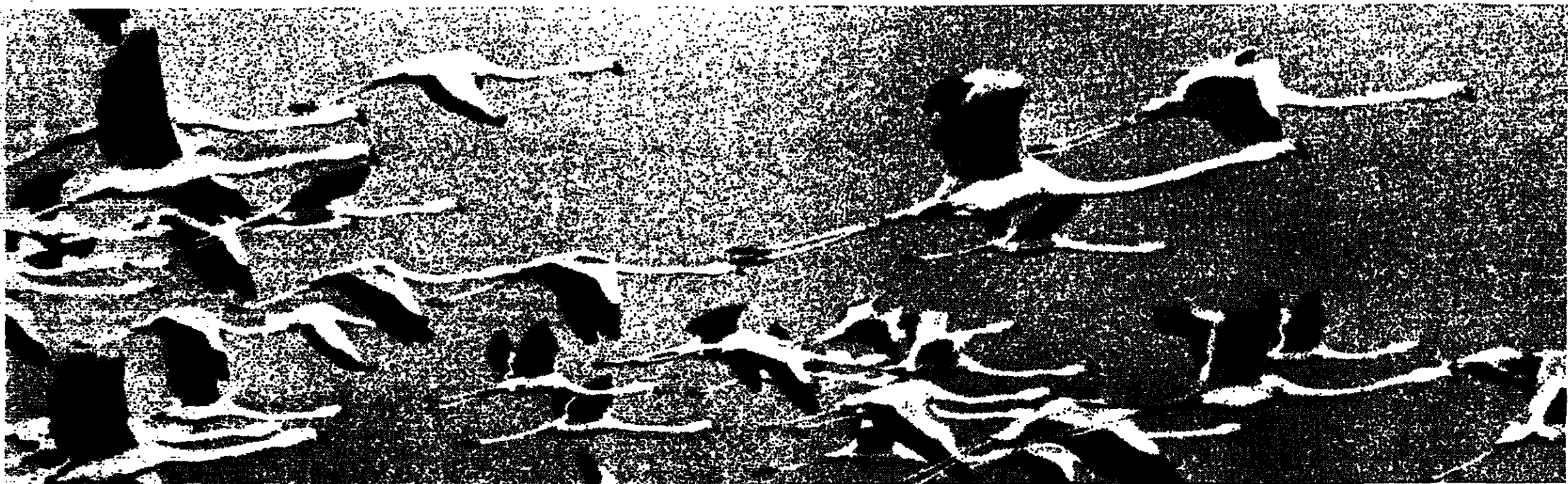
US\$100,000,000

Floating rate subordinated notes due 1997

In accordance with the terms and conditions of the notes, the rate of interest for the interest period 16 September, 1991 to 16 December, 1991 has been fixed at 5 1/4% per annum. Interest payable on 16 December, 1991 will be US\$143.77 per US\$10,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan



In praise of liberty

Liberty is inherent to mankind. It is one of humanity's treasured gifts, one of Switzerland's founding principles, one of Geneva's eternal themes. Liberty is also a basic tenet of the Groupement des Banquiers Privés Genevois. With a spirit of understanding, independence and commitment, they manage the stable, long-term performance of the funds of men and women who value their liberty. These professionals are very much people of their times: autonomous and enterprising, in touch with the pulse of the markets, and able to react quickly. Those responsible for trusts know what a true and rare gift liberty represents today.



GROUPEMENT DES BANQUIERS PRIVÉS GENEVOIS

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LOMBARD, ODER & Cie 187981 11, rue de la Corneille • MIRABAUD & Cie 188191 3, boulevard du Théâtre • PICTET & Cie 188051 29, boulevard Georges-Favon

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INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Agip's \$600m deal set to be launched

THE PROPOSED \$600m loan to finance the North Sea developments of Agip (UK), part of the Italian state-controlled oil group, has been sub-underwritten and is expected to be launched for syndication next week, despite the earlier reservations expressed by some banks.

Agip, like other Italian state-controlled entities, has faced a degree of resistance from financiers in the wake of the debacle surrounding Federconsorzi, the troubled Italian farm services co-operative.

However, quality names are not turned down quickly during such quiet days in the syndicated loan business, and the Agip deal, first announced a month ago, has been sub-underwritten.

Joining the four arrangers - Bank of America, Royal Bank of Canada, Société Générale and Swiss Bank Corporation - are Banque Nationale de Paris, Bayerische Landesbank, NCNB National Bank, Rabobank, Union Bank of Switzerland and Westdeutsche Landesbank.

The \$600m limited recourse loan, to be used to finance Agip's share of the cost of developing the Tiffney and Tuni oilfields, will begin at a margin of 37.5 basis points over the London interbank offered rate (Libor), rising to 42.5 after the beginning of 1994, and to 50 from 1997.

The facility is structured in such a way that the loan, due to be repaid by the end of 1999, will at first be backed

by a guarantee from Agip International, whose parent is the Italian state-controlled ENI group.

In due course (expected to be two years after signing), the loan will convert to one with recourse only to the project itself. The interest margin will rise to between 62.5 basis points and 100 basis points, depending on the cashflow from the project.

Chelsea Building Society raised some eyebrows with its decision to offer a commitment fee of just 12.5 basis points more than Libor on its proposed 125m five-year revolving cash advance.

The margin on the loan, when drawn, will be 30 basis points, and bankers were quick to point out that it was not enough to offer a commitment fee of less than half the lending margin.

However, the Chelsea hopes to overcome the lenders' lack of enthusiasm with a promise to ensure that at least 60 per cent of the facility is drawn down at all times.

The deal is brought by Schroder Wagg, which pointed out that the terms were roughly in line with similar recent building society transactions.

Philip Morris responded to leaks in the market last week to confirm that it was talking to its banks about refinancing credit facilities amounting to \$12bn. At the same time, it wants to raise a further \$3bn.

However, several bankers discounted the suggestion that a deal was imminent. Talk about the financing first circulated two months ago, and the company has until March to carry it off. After that date, it would have to reclassify the existing \$12bn as a short-term liability, rather than a long-term one.

As expected, though, news of the company's plans caused a jittery moment or two for executives in companies which, like Cadbury Schweppes, are often talked of as possible Philip Morris takeover targets, and helped to push the share prices of some brand-rich companies marginally higher.

Richard Waters

INTERNATIONAL BONDS

Banks focus on matching Basle capital requirements

A RECENT spate of capital-raising issues by international banks could mark the start of the final phase of efforts to meet the terms of the Basle accord on bank capital adequacy, which come into full effect from January 1993.

National Westminster Bank was the most active institution last week, raising \$140m and \$200m of core capital through the issues of perpetual preference shares in the UK and US markets. While bankers are not predicting anything like a flood of preference share issues, the deals underline that sentiment is improving on both sides of the Atlantic.

News that Crédit Lyonnais has reopened the variable rate note market with a \$200m issue will hearten other banks hungry for non-core, subordinated capital. The VRN market has been closed to new issues this year following a collapse in secondary market liquidity.

Elsewhere, in the run-up to the Japanese bank's half-year close at the end of this month, there have been more subordinated debt issues. Last week Mitsubishi raised \$175m of non-core capital, while Bank of Tokyo raised \$200m.

The Basle accord sets a minimum capital-to-assets ratio of 8 per cent. International banks will have to meet this by the end of next year. Of the 8

per cent total capital requirement, half must be core or Tier I capital, comprising common equity and perpetual preference shares. The rest can be non-core or Tier II capital, comprising subordinated debt, instruments, reserves and general provisions.

Banks in different countries face specific problems in meeting the Basle targets. For example, Japanese banks can count 45 per cent of unrealised gains on holdings of securities as Tier II capital. As the Tokyo stock market has fallen, the banks' capital ratios have deteriorated, forcing them to curtail new lending and raise Tier II capital from elsewhere - mainly by issuing subordinated debt.

No-one is expecting a repeat of the unregulated flood of subordinated debt issues by Japanese banks which hit the international bond market last autumn. The Japanese finance ministry is keen to maintain an orderly flow of funds.

However, further weakness of the Tokyo stock market next year could leave the banks with few alternatives. At the end of last September, two of the 22 largest Japanese financial institutions had Tier II capital ratios sufficient to meet the final Basle targets. This year's interim results will be watched closely.

In the US, the big banking mergers

of the summer between Chemical and Manufacturers Hanover, and Security Pacific and BankAmerica, were driven by the need for greater efficiency.

However, underlining the drive for efficiency are concerns about capital. Improved profitability is essential if banks are to attract capital in the long run. Improved margins allow income to be retained and capital generated without recourse to the markets. Cut dividends are a sign of the urgent need to retain income.

Even so, capital-raising debt issues have proceeded all year, with \$2.5bn common stock, \$2bn preference shares and \$3.5bn subordinated debt issued by US banks this year. This does not include the \$1bn capital raised by Citicorp from share placements with Prince Alwaleed Bin Talal, a Saudi prince, and a group of US institutions.

Europe can boast many of the world's best capitalised, most profitable banks. But there are still plenty of European institutions eager to launch what bankers describe as "opportunistic" capital issues. Even banks which meet the Basle ratios now may not do so by January 1993 if they continue to expand lending.

Hence banks such as National Westminster, which has a Tier I capital ratio of more than 5 per cent, comfortably within the Basle target,

has made two preference share issues. Banco Santander, which has a Tier I ratio of close to 6 per cent, has also raised preference capital in the US this month.

So the amount of fresh capital which has to be raised from all sources during the next year depends, among other things, on the rate at which banks expand lending. Every \$100m in new corporate loans requires \$8m more capital.

It is arguable that the recession in the US and many European economies has deferred the question for the time being. Despite fears of a credit crunch, demand for loans from banks has been relatively low. The slowdown in bank lending has been dramatic.

The big five Japanese city banks showed negative asset growth of nearly 4 per cent in the year to March, having shown growth of between 16 and 30 per cent for each of the previous four years.

The big eight US banks have shown average loan growth at or below 4 per cent every year since 1986.

The big four UK clearing banks showed average loan growth of just 1.25 per cent last year, against 18.3 per cent in 1989 and 20 per cent in 1988.

None of these figures, supplied by IBCA, the credit rating agency, are

adjusted for inflation.

How much of the slowdown in lending is attributable to recession and how much is attributable to banks' unwillingness to lend remains unanswered.

The real test could come as the UK and other economies pull out of recession. Will the banks be sufficiently capitalised to fund economic recovery and still stay within the Basle targets? Will new sources of capital be available to them?

The answer to both questions is probably "yes, but at a price".

Throughout the worst fears of a credit crunch, the Basle group of central bank regulators remained adamant that their original capital adequacy targets would not be relaxed. The original ratios have not been changed, and new instruments designed by financial engineers have been ruled unacceptable. Ready sources of capital which satisfy both the regulators and investors are few.

Most banks are now perceived as less profitable and of lower credit quality than a few years ago. As a result, the cost of capital has risen. If banks wish to maintain profitability, which is in turn essential to attract more capital, this increased cost will be passed through to borrowers.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Export Development Corp†	200	1994	3	7	101.3	CSFB	8.551
M&T Finance Corp†	100	2006	15	8 1/2	100	Mitsubishi Fin.Intl.	8.525
M&T Finance Corp†	75	2001	10	8 1/2	100	Mitsubishi Fin.Intl.	8.125
Fuji Oil Co.(h)††	100	1995	4	4 1/2	100	Nomura Int.	8.425
Sandoz Overseas Fin.(h)††	500	1998	7	4	100	UBS Phillips & Drew	4.000
EBI†	300	1996	5	7 1/2	98.794	S.G. Warburg Secs.	7.566
Repof Argentina(h)†	300	1993	2	11	98.58	J.P. Morgan	11.505
Toko Zinc Co.†	55	1995	4	5	100	Nikko Secs.(Europe)	6.000
Arabian Oil(h)††	200	1996	4	4 1/2	100	Nikko Secs.(Europe)	4.625
Permex†	150	1998	7	10 1/4	100 1/2	SBC	10.121
Ishihara Sangyo†	120	1995	4	4 1/2	100	Nomura Int.	4.625
STERLING							
T.M.C.(h)††	300	2031	9 1/2	(e)	100	Salomon Bros.Intl.	-
Woolwich Building Soc.†	75	2001	10	11 1/2	101.35	Baring Bros.	11.276
ECUs							
Council of Europe†	500	2001	10	9	100	Goldman Sachs Int.	9.000
CANADIAN DOLLARS							
Postbank(h)††	100	1994	3	(f)	100	Citibank AG	-
Canada Trustco Mortgage†	100	1996	5	10 1/2	101.725	ScotiaMcLeod Inc.	9.921
Ontario Hydro(h)††	1.25bn	2021	10	10 1/2	99.08	Goldman Sachs Int.	10.538
AUSTRALIAN DOLLARS							
State Bk of S.Australia†	100	1996	5	11	101.10	Hambros Bk.	10.705
YEN							
Sapporo Breweries†	10bn	1997	6 1/2	7	101.45	Yamaichi Int.(Eur)	6.654
Sony Corp†	50bn	2000	6 1/2	8 1/4	101 1/2	Nomura Int.	6.646
Asahi Breweries†	10	1999	7	7 1/4	101.50	Nomura Int.	6.724
FRENCH FRANCS							
Credit National†	3bn	2001	10	9 1/4	99.50	CCF	9.329
D-MARKS							
Prima Meat Packers(h)††	60	1995	4	6	100	Commerzbank AG	6.000
Deutsche Bk.Finance(h)††	500(h)	1996	5	9	102 1/4	Deutsche Bk.	8.418
Ford Motor Credit†	200	1994	3	9 1/4	101.20	Dresdner Bk.	8.776
JFM†	100	2001	10	8 1/2	102.45	Deutsche Bk.	8.135
LIRE							
Finfor Danish Inds.†	150bn	1998	5	12.3	101.8	IMI Bank Lux.	11.803
EBI(h)†	400bn	2001	9 1/2	11.10	101.50	Banco di Napoli	10.823
SWISS FRANCS							
Daito Kogyo(h)†††	70	1995	-	5 1/4	100	Nomura	5.250
Tokyo Mihin Kogyo(h)†††	35	1995	-	5 1/4	100	Banca d'Svizz.Italiana	5.250
Daito Steel Sheet(h)†††	100	1988	-	6	100.50	UBS	5.911
Asian Dev.Bk.†	150	2001	-	6 1/2	101 1/4	UBS	6.699
SWEDISH KRONOR							
BMW Finance†	400	1998	7	10 1/4	101.40	Dresdner Bk.	10.458
ABB Int. Finance(h)††	300	1995	5	10 1/2	100 1/2	Skandinaviska E.Banken	10.268
LUXEMBOURG FRANCS							
Commerzbank(h)†	2bn	1999	8	9 1/4	102.10	BGL	8.996

EUROMARKET TURNOVER (\$m)

	Sept	Aug	July	June	May	April	March	Feb	Jan	Dec	Nov	Oct	Sept
Primary Market	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Secondary Market	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Total	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0

Week to September 12, 1991
Source: IBIS

This announcement appears as a matter of record only.



Bank of Ireland Mortgages

Bank of Ireland Home Mortgages Limited

£145,000,000

Mortgage Purchase Facility

Arranger and Agent Bank:

Swiss Bank Corporation

Lead Manager:

Swiss Bank Corporation

Managers:

Morgan Grenfell & Co. Limited

The Sanwa Bank, Limited

J. Henry Schroder Wagg & Co. Limited

Co-Managers:

Banco Español de Crédito, S.A. London Branch

Banque Internationale à Luxembourg S.A. - London

Banque Française du Commerce Extérieur

Baring Brothers and Co., Limited

Hill Samuel Bank Limited

Raiffeisen Zentralbank Österreich AG

The Sumitomo Bank, Limited

Swiss Volksbank

The United Bank of Kuwait Plc.

Swiss Bank Corporation
Schweizerischer Bankverein
Société de Banque Suisse

This announcement appears as a matter of record only



VANCOUVER CITY SAVINGS CREDIT UNION

10.75% Secured Debentures Due August 20, 1996

Canadian \$100,000,000 at an issue price of 101.55%

Canadian \$50,000,000 at an issue price of 102.05%

Hambros Bank Limited

ABN AMRO

Banque Bruxelles Lambert S.A.

RBC Dominion Securities International

Fuji International Finance Plc

Generale Bank

Kredietbank International Group

ScotiaMcLeod Inc.

Swiss Bank Corporation

Yamaichi International (Europe) Limited

ASLK-CGER Bank

Banque et Caisse d'Epargne de l'Etat, Luxembourg

Banque Générale du Luxembourg S.A.

Banque Internationale à Luxembourg S.A.

Bayerische Landesbank Girozentrale

BNP Capital Markets Limited

CBI-TDB Union Bancaire Privée

Commerzbank Aktiengesellschaft

Crédit Communal de Belgique S.A.

Crédit Lyonnais Euro-Securities Limited

Deutsche Bank Capital Markets Limited

Dresdner Bank Aktiengesellschaft

Goldman Sachs International Limited

IPPA Bank N.V.

NMB Postbank Groep N.V.

Norddeutsche Landesbank Girozentrale

Rabobank Nederland

Société Générale Strauss Turnbull Securities Limited

Suedwestdeutsche Landesbank Girozentrale

Swiss Cantobank Securities Limited

Westdeutsche Genossenschafts-Zentralbank eG

Westdeutsche Landesbank Girozentrale

Westpac Banking Corporation

August 1991

ADA

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● Current Unit Trust prices are available on FT Cityline, call 0836 490000. Calls charged at 36p/minute (peak rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2121.

Figure 1. The effect of the number of iterations on the accuracy of the proposed algorithm. The accuracy of the proposed algorithm increases with the number of iterations. The accuracy of the proposed algorithm is 100% when the number of iterations is 1000.

● Current Unit Trust prices are available on FT Cityline, call 0836 430000. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2121.

Board Plus . . . 1510-23 10 851

● Current Unit Trust prices are available on FT Cityline, call 0836 430000. Calls charged at 35p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2126.

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Problem of PPP

The dollar looks set on a downward course at present, although where it is moving in the longer term is much more difficult to decide.

UK clearing bank base lending rate
10.5 per cent
from September 4, 1991

Merrill Lynch claimed recently that trends in long-term interest rates, economic growth and inflation differentials suggest that the dollar could rise above DM2.00 in the next year, but said that the trend will probably be restrained by other factors and the likely level in 12 months is DM1.80. Merrill Lynch also stated that the dollar is undervalued by 7.6 per cent in terms of Purchasing Power Parity, but admitted that there have been times when it has been under or over valued by 20 per cent or more.

In the latest publication of Capital Insight from Nomura Research the methods of forecasting currency

movement using Purchasing Power Parity are explored. The principles of PPP gauge that a currency should be worth in relation to a country's rate of inflation.

According to this theory over the next 12 months the dollar will rise to DM2.39 against the D-Mark and sterling will fall to £1.57, giving an implied value for the pound of DM3.76. This of course fails to take into account other factors, such as the linkage of the D-Mark and the pound in the European exchange rate mechanism. Nomura points out that the whole point of the ERM is to ensure that measures are taken to enable currencies to avoid the implications of PPP.

Nomura forecasts that rather than rise the dollar is likely to fall to DM1.60 and that sterling will rise to £1.83, putting the pound's D-Mark value at a more acceptable DM2.9280. The conclusions of this exercise are that PPP cannot be used unless currencies are free floating and even then no forecasts can be made with confidence for periods shorter than five years.

CURRENCY MOVEMENTS

£ IN NEW YORK

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
3 months	1.7200-1.7200	1.7215-1.7225
6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

Forward premiums and discounts apply to the US dollar

STERLING INDEX

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
3 months	1.7200-1.7200	1.7215-1.7225
6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

CURRENCY RATES

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
3 months	1.7200-1.7200	1.7215-1.7225
6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

CHICAGO

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
3 months	1.7200-1.7200	1.7215-1.7225
6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

U.S. TREASURY BILLS (BID)

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
3 months	1.7200-1.7200	1.7215-1.7225
6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

U.S. TREASURY BILLS (ASK)

Sep 13	Close	Previous
£/DM	1.7200-1.7200	1.7215-1.7225
1 month	1.7200-1.7200	1.7215-1.7225
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6 months	1.7200-1.7200	1.7215-1.7225
12 months	1.7200-1.7200	1.7215-1.7225

POUND SPOT - FORWARD AGAINST THE POUND

Sep 13	Day's spread	Close	One month	% chg.	Three months	% chg.
US	1.7295-1.7335	1.7315-1.7325	0.68-0.69	4.84	1.91-1.90m	4.45
Canada	1.9900-1.9725	1.9800-1.9700	0.53-0.53	1.86	0.58-0.47m	2.00
UK	1.5600-1.5600	1.5600-1.5600	0.00-0.00	0.00	0.00-0.00	0.00
DM	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
FR	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
IT	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
JP	1.2225-1.1225	1.2500-1.12675	0.00-0.00	0.00	0.00-0.00	0.00
SE	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
DK	2.9150-2.9150	2.9150-2.9200	0.00-0.00	0.00	0.00-0.00	0.00
Germany	2.9950-2.9570	2.9500-2.9510	36-39pips	1.24	0.96-0.97m	0.77
Italy	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
Spain	2.1800-2.1800	2.1800-2.1815	2-3pips	1.37	1.70-1.70m	0.44
Belgium	1.9200-1.9200	1.9200-1.9200	0.00-0.00	0.00	0.00-0.00	0.00
Sweden	10.5070-10.4725	10.5000-10.4810	1-2pips	0.21	0.41-0.41m	0.00
Switzerland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Austria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Portugal	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Finland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Denmark	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Norway	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Czech	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovak	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Hungary	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Romania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Bulgaria	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Croatia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Slovenia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Lithuania	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Latvia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Estonia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Russia	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Ukraine	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Belarus	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	0.00
Poland	2.0700-2.0700	2.0700-2.0700	0.00-0.00	0.00	0.00-0.00	

[illegible]

5.0345	Enox Int. 1r10p	6	-7.7	-	-
2.185	Enoxa Mineral 2p	6	-14.3	-11.6	-
0.394	Ferrius Nix. 1r20	9 1/2	-	-

STOCKS				
1	2	3	4	5
6	7	8	9	10
11	12	13	14	15
16	17	18	19	20
21	22	23	24	25
26	27	28	29	30
31	32	33	34	35
36	37	38	39	40
41	42	43	44	45
46	47	48	49	50
51	52	53	54	55
56	57	58	59	60
61	62	63	64	65
66	67	68	69	70
71	72	73	74	75
76	77	78	79	80
81	82	83	84	85
86	87	88	89	90
91	92	93	94	95
96	97	98	99	100

1. No par value
B.F. Belgian Francs. Fr. French Francs 99 Yield based
assumption Treasury Bill Rate stays unchanged until maturity

STOCKS • Cents & Accumulation yield. † Flat yield. ‡ Not available. \$ Minimum tender price.
Abbreviations: w = dividend; x or scrip issue; y or rights all; n = capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stock prices last week quoted in Irish currency.

Craig & Rose XL . . .	648		
Fisher Fin. 25p . . .	29		
Hill's Lead 25p . . .	197 1/2		
		Hutton Hldgs. . . y	650
		IRC . . .	130
		United Drug . . . l	180
IRISH			
Cas. 6 1/2% Cap. 1984 . .	294 1/2	0.1	
Soc. La. 100% . . .	294 1/2		
F.I.R. 13 1/2% 97/02 . .	613 1/2		
Aer Lingus . . .	128	2 1/2	

TRADITIONAL OPTIONS

3-month call rates

RHIA

Industrials **Rank Org Ord**
Partners
Need Invest

[illegible]

Let Service	28	Premier
Lloyds Bank	36	Swell
Lucas Inds	13	Tuskar Res.

Ultramar	15
Wells Fargo	15
Midland Pl.	16
Has. West. Bk.	27
P & O Dr.	31
Rockwell Int.	38

Mines

Lauria	15
RTZ	15

This service is available to companies whose shares are registered in the United Kingdom for a fee of £3,250 a year. Security shares, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions:
Murray Split Income Inv. Trust Ord.
Cap Shares, Units and Zero Div. Pref.
Shares (Section: Inv. Trusts).
Western & Pacific Resources (Mining
World Trust Fund (Trusts, Finance,
Land).
Do. Warrants (Trusts, Finance, Land).
Deletions:
Sabcock Prebon (Trusts, Finance,
Land).
Lawtex (Industrials).

... ..

1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

The following changes have been made to the FT Share Information Service:

Additions:
Murray Split Income Inv. Trust Ord.

Western & Pacific Resources (Mining)
World Trust Fund (Trusts: Finance)

Deletions:
Babcock Prebon (Trusts: Finance)

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INDIA

Monday September 16 1991

Defence strategy is being pulled in different directions: Page 3

The new industrial policy has deregulated vast chunks of the economy: Page 6

SECTION III



As India enters an era of unprecedented economic change, David Housego finds the ruling Congress

party's traditional monopoly on power coming under challenge and questions whether the scope of the new measures is broad enough to pull the country out of its troubles

Fundamental shift in focus

INDIA during the past 12 months has passed through what has probably been its most momentous period since independence. The economic reforms introduced by the new Congress administration of prime minister P V Narasimha Rao go further than any previous deregulation measures towards integrating into the world economy what has been a highly protectionist country. Reforms were precipitated by India's coming close to default earlier this year on repayments of its foreign debt - a shock to national pride that itself reflected the failure of the doctrines of self reliance and central planning that have guided economic management over the past 40 years.

The Congress party, which has had an almost uninterrupted monopoly of power since independence, has come under challenge as the natural party of government from a Hindu militant movement, the Bharatiya Janata Party (BJP). The BJP now controls three north Indian states - including Uttar Pradesh, the largest - and is the main Opposition party in the Parliament. Its success in the June general elections - riding on the back of several months of Hindu-

Muslim violence in north India - reflects widespread disillusion with Congress rule and the appeal of its alternative vision of India as a Hindu state.

The assassination of Mr Rajiv Gandhi, the former prime minister and leader of the Congress party, by extremist Tamils from Sri Lanka, brought at least a temporary end to the domination of India by the Nehru family.

It has left the Congress party without a national symbol around which to rally, divided over the long term leadership of the party, and uncertain over which direction to follow. Its confusion reflects the fragmentation of the centre ground of Indian politics.

The collapse of the Soviet Union - India's leading ally - has removed a cornerstone of Indian foreign policy which has traditionally looked to the Soviet Union as a counterweight to US influence in the world. It is also bound to give an impetus to India's own separatist and regional movements which see in the example of the Russian Republics a model for their own campaigns for independence or autonomy.

Many of the ideas and institutions that have moulded



Prime minister Narasimha Rao leads his country on a path to reform, but events may not permit the leisurely timetable that he and many senior Indian officials would prefer

India since independence - the Nehru framework of self-reliance, socialism, central planning, secularism and the Congress party - seem under attack or no longer relevant.

Political parties are still unwilling to espouse the alternatives of market economics, and of an Indian union reformulated to make a virtue out of giving more autonomy to the states. But these are likely to be the fundamental tenets of a successful centrist party seeking to achieve higher rates of economic growth.

By comparison with the economic reforms in East Europe - or the more ambitious restructuring undertaken by Indonesia - the policies adopted in India seem modest. They include a programme of fiscal and balance of payments stabilisation: the removal of most industrial licensing; the

lifting of restrictions on the further growth of large companies; trade deregulation; and further encouragement to foreign investment.

The measures mark a fundamental shift in direction - away from an environment where the main focus of business strategy was on obtaining licences to one where increasingly competition will determine which firms succeed.

The measures give companies a new freedom to expand capacity to achieve high volume production, to diversify into other products and to grow through mergers and acquisitions. For aggressive, well managed or financially strong groups, they provide tremendous opportunities.

More vulnerable ones fear they will not survive. In this sense the reforms mark a turning point in a country where

capitalism and profit have long been regarded as distasteful.

The shift in direction was announced against the background of a virtual halt to commercial lending to India by international banks because of fears that India might default on debt repayments. The external situation still remains fragile. Foreign exchange reserves are low - although India should soon start drawing on a new \$2.3bn standby credit from the International Monetary Fund which is due for approval by the board of the Fund.

India still is not able to count on automatically rolling over its short term debts. It will need over \$9bn this financial year in fresh funds from the multilateral institutions, donor nations and commercial banks in order to finance its current account deficit as well as loan repayments on its out-

standing \$70bn foreign debt.

However, the institutions and the banks believe that far more radical measures are needed to improve export performance in an economy that generally suffers from high costs, low productivity and poor quality. Mr Michel Camdessus, the managing director of the IMF, recently told an Indian newspaper that "the support of the international community is quite dependent on the boldness and determination of your national efforts".

The type of measures they are pressing for include a substantial reduction in high domestic tariff rates which make it more profitable for industry to produce for the domestic market than for exports; cuts in the labour force in the heavily overmanned public sector; the phasing out of government directed

lending in the banking sector, and increased autonomy for public sector companies and nationalised banks as a prelude to privatisation.

It is hard to see how sectors such as telecommunications, banking, steel, cars and electronics will be made internationally competitive without substantial inflows of foreign capital and technology. But suspicions of foreign multinationals still remain.

The confidence of the international financial markets in India will not fully return until the government is heading further down the path of reform. The best guarantee of maintaining the momentum would be for India to seek - and Dr Manmohan Singh, the finance minister, has said that this is his intention - a further three year loan from the IMF under the extended fund facility. This would provide \$5.7bn over the period and closer monitoring of the Indian economy.

Although Dr Singh and some of his colleagues are aware that the new measures are the first step in a long haul, many in the government and the Congress party are half hearted in their support.

Experience elsewhere suggests that where an IMF restructuring programme is carried through with the full backing of an administration - as in Indonesia - it stands more chance of success. In India's case the main threat to macroeconomic management comes of an inflationary spiral getting out of control - with a devaluation fuelling inflation that leads to further depreciation of the currency.

At 70, Mr Narasimha Rao seems an elderly figure to be leading his country through a period of tumultuous change. He has proved a stronger and more clear-headed Prime Minister than many had expected. But as the head of a minority administration he remains politically vulnerable.

His own instincts for cautious change came through in comments he made immediately after the coup against Mr Mikhail Gorbachev - seemingly warning that it showed the risks of hasty reform. But the pressure of events may not allow the more leisurely timetable that he and many senior Indian officials would prefer.

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INDIA 2

K K Sharma finds the Congress facing a formidable opposition

Power rests on fragile base

MR P V Narasimha Rao, who heads the minority Congress government in India, is an apparently phlegmatic prime minister who has shown remarkably alacrity in initiating urgently needed economic reforms in the few weeks during which he has been in power.

He has done this without forming a coalition and with only occasional consultations with the opposition parties, which together outnumber the Congress members and their allies in parliament.

National elections earlier this year, the third in just over two years, have led to hung parliament. With Mr Rajiv Gandhi having been assassinated in the middle of the election, the Congress has emerged as the single largest party but with its leadership issue only temporarily resolved.

Political instability is inherent in the situation. This could be prolonged as rival parties contend for power at a time when no single party can hope for a majority.

For the present, the Congress is faced with a formidable, if divided, opposition which has strong segments that aspire to replace it in the next elections, whenever these might come.

The threat to the faction-ridden Congress - which Mr Rao has so far unsuccessfully tried

to weld together after becoming the consensus choice of its leader as an elder statesman - comes mainly from the Hindu-revivalist Bharatiya Janata Party (BJP).

This now has as many as 117 members in the Lok Sabha, the lower house of parliament, in contrast to the nominal two members it was represented by when Mr Gandhi was Prime Minister.

The BJP already forms the governments in four northern states, including the politically-important Uttar Pradesh, and thus controls large segments of the Hindi heartland. Its rapid accretion of strength brings to the fore a new force with strong, publicly announced policies of Hindu nationalism that many Indians find attractive.

The BJP is now the official opposition, promoting itself as the alternative to the Congress, eager to gain respectability by playing an effective role both in parliament and outside. However, its performance in the states it controls has detracted from its image of a

disciplined force and it still carries the stigma - its followers would say appeal - of leading a bloody mass movement on the issue of demolishing a Moslem shrine in Ayodhya.

But its fervent cadres have

Mr Rao is weakened also by the fact that the Congress is still ridden with factions

allowed the BJP to act as an effective opposition, at least in parliament. As the party has shown in the past, even the moderates within it will not find it easy to compromise on many issues on which it has taken extreme views publicly. The threat to Mr Rao is strongest from the BJP.

Mr Rao is weakened also by the fact that the Congress, as it has emerged in the post-Gandhi era, is still ridden with factions and continues a barely hidden tussle for the leadership.

Many of its members still yearn for the umbrella of the Gandhi family and there is considerable pressure on Mr

Gandhi's widow, the Italian-born Sonia, to take her husband's place.

Mrs Sonia Gandhi has been meeting large numbers of Congress members of parliament and others in the party still

proclaiming loyalty to her family. Her immediate aim is to persuade her to contest the parliamentary by-election from Mr Gandhi's constituency of Amethi and, by implication, to lead the party.

Mrs Gandhi has maintained

an enigmatic silence on this, although she has left for a trip to the US, suggesting that she has decided not to enter politics. However, while uncertainty over her role continues, Mr Rao's position as leader remains weakened. He is now in the position of having to deal both with the traditionally fractious factional politics within the Congress at the same time that he copes with the challenge from the opposition.

The Prime Minister has already been embarrassed by the revolt from the Karnataka state wing of the Congress on the issue of sharing of the waters of the Cauvery river

with Tamil Nadu, a state ruled by his allies in the All India Anna Dravida Munnetra Kazhagam (AIADMK) whose support to the government is vital in parliament.

The Cauvery waters issue is the first warning signal of trouble from within the Congress party. It is also indicative of the powerful pressures on Mr Rao from the states at a time when the Central government is weak. Many states are ruled by non-Congress parties wanting to dilute the powers of the centre; some want to secede from the Indian Union.

A wag has said that Mr Rao's is a minority government on daily wages, constantly at the mercy of the numerically stronger opposition parties and the Congress factions which he is in no position to control.

Such is the fragility of the government that it could fall on any snap vote if the Congress's notoriously inefficient floor management in parliament happens to fail.

Mr Rao is protected by the fact that no party wants another early election after the country has gone through two violent and traumatic national polls in less than two years. As a Communist member said: "The people will stone us if we ask for their votes again."

For the time being, Mr Rao is also protected by the consensus among all parties that concerted action is needed to tackle the economic crisis. Yet they have differed on some crucial issues - such as withdrawal of the fertiliser subsidy - and the government has been forced to compromise to save itself.

It is possible to visualise a situation when such a compromise would be difficult, when one or the other of the opposition groups or, worse, all the groups combined, might feel they could not give in on an issue on which they had taken a strong public position or on

which they had given commitments they felt they could not withdraw.

The BJP has already had some confrontations with the government and it will be even more intractable when it acts on the Ayodhya issue. For the present, however, the BJP is holding itself back because of the common wish to avoid elections and because of disagreements with other opposition groups, notably the National Front-Left combine, whose members are openly critical of the party's communal politics.

Indeed, Mr Rao survives from day-to-day, hoping for an increase in his party's numerical strength by the not unlikely break up of such parties as Mr V P Singh's Janata Dal - the dominant partner in the National Front - which is torn by internal dissensions and personal rivalries. Clearly, this is a fragile basis for the kind of strong government that India now needs.

David Housego finds the benefits of the changes will take several years to be felt

Bold reforms face the test of time

AFTER coming close to default on its foreign debt repayments earlier this year, India under its new government has embarked on a programme of macroeconomic stabilisation and of wide ranging structural reforms which are aimed at improving industrial competitiveness.

The measures still fall well short of what is necessary to bring about a substantial improvement in India's economic performance - and the real benefits will take two to three years to be felt. Over the short term, the government faces an uncomfortable period of high inflation, sagging output and a fragile balance of payments that will test its determination to stick to the policies.

Public opinion has been ill-prepared that change is bound to be painful. If the measures are to work, substantial cuts will be needed in the labour force of the public sector and the nationalised banks.

One of the first actions of Dr Manmohan Singh, the new finance minister, was a bold 18 per cent devaluation of the rupee intended to halt a flight of short term capital and to provide a more competitive exchange rate.

The delayed budget that he announced in July reduced the fiscal deficit from 9 per cent of gross domestic product in the financial year 1990-91 to a planned 6.5 per cent this year. A cumulative fiscal deficit averaging more than 8 per cent of GDP over the past six years has been the principal factor behind growing inflationary and balance of payments strains.

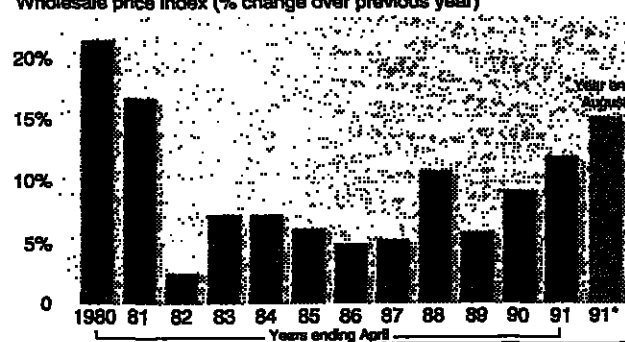
The finance minister has also said that the deficit would be brought down to between 5 and 5.5 per cent of GDP in next year's budget.

These stabilisation measures have been accompanied by a relaxation of tariff and trade controls and a further liberalisation of foreign investment.

But many of the big structural reforms - cuts in protective tariffs where India has rates among the highest in the

Inflation

Wholesale price index (% change over previous year)



Source: Central Statistical Organisation

world, using market mechanisms to allocate bank credit, providing autonomy for public sector banks and industries, and reducing the public sector work force - have yet to be carried out.

The International Monetary Fund - which provided rapid balance of payments assistance to India earlier this year - and the World Bank are expected to back these reforms with further loans. Approval for a further \$2.3bn IMF stand-by credit and a \$500m World Bank structural adjustment loan is expected in the coming weeks.

Dr Singh also told the *Financial Times* that India would apply for an Extended Fund Facility (EFF) loan from the IMF. This could provide India with a much needed cushion of a further \$5-7bn over three years.

But the loan is accompanied by much tighter monitoring of the Indian economy, that would provide some guarantee to India's external creditors that the momentum of reform would be maintained. Because of this, there is still resistance to it within the government and the Congress party.

An announcement of the opening of negotiations with the IMF on an EFF borrowing would, more than any other measure, help boost confidence in India on the international financial markets.

Since fears of default earlier this year, India continues to be placed in a risk category by the

big US and Japanese credit rating agencies. It cannot count on automatically rolling over short-term credits of about \$4bn. Important Indian public sector borrowers still reckon it will be several months before they are able to borrow commercially abroad at non-prohibitive rates.

The foreign exchange reserves have been boosted by sales of gold and will be further boosted by the first tranche of the new IMF loan.

Many of the big structural reforms have yet to be carried out

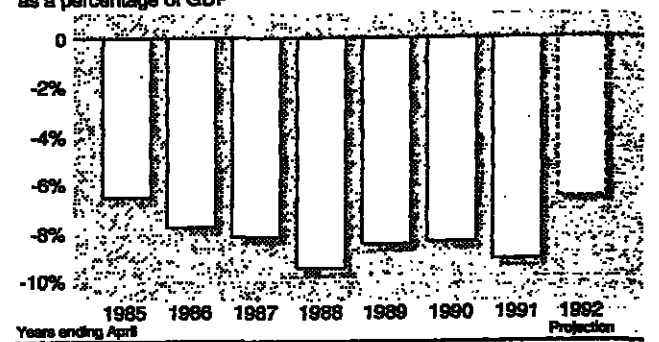
But they provide little room for manoeuvre. The government hopes to cut the current account deficit - calculated on the World Bank definition which includes interest payments on Non-Resident Deposits - to \$5bn from \$10bn in 1990-1991.

But principal repayments on outstanding loans will add a further burden of \$3.2bn. India has an outstanding debt of over \$70bn.

This requirement of a capital inflow of over \$9bn in the current financial year will be difficult to realise. Normal aid flows from multilateral institutions and bilateral donors will provide about \$5.5bn. Fresh foreign investment could account for a further \$200m.

Central government fiscal deficits

as a percentage of GDP



Source: Central Statistical Organisation

But for the rest, the government will be dependent on exceptional assistance from the IMF, the World Bank and donor nations and from the commercial markets.

Domestically the biggest test of the government's macroeconomic policy - and thus the biggest threat to confidence abroad - will be its ability to curb inflation. As measured by the wholesale price index, the year-on-year inflation rate rose in August to 15.2 per cent against 7.7 per cent a year before. Devaluation, import shortages as a result of the foreign exchange crisis, and the high level of liquidity in the economy are all contributing to accelerating inflation.

Through a tight money policy, the government's aim is to bring the inflation rate down to 9 per cent by March. In support of this, the Reserve Bank has reduced its target for the growth in the money supply from 14 per cent last year to 13 per cent this year. But the government also has to hold the line against public sector wage increases.

The risk remains that India will find it difficult to break free of the cycle of devaluation fuelling inflation and hence further depreciation that has knocked IMF programmes off the rails in other countries.

Another danger is that industrial restructuring will be jeopardised by the shortage of foreign exchange and of imports.

As a result of restrictions imposed earlier this year, imports of capital equipment and components have been drastically curtailed in recent months.

Mr S Venkiteswaran, the governor of the Reserve Bank, says he wants to relax them, but not before the foreign exchange reserves have reached a "reasonable and sufficient level". This could be delayed by the unexpected tumble of exports in the first quarter of the financial year. They fell 6.6 per cent in dollar terms as against the same quarter in 1990.

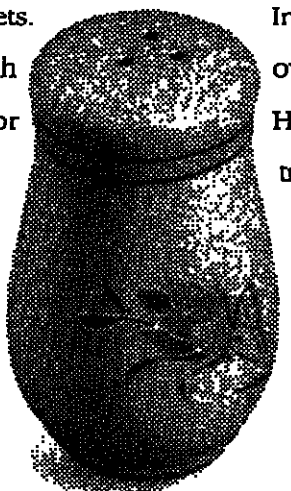
The squeeze on imports, the cuts in government expenditure and higher interest rates are all pointing to a slowdown in economic growth. The most visible sign of this at the moment is the drop in fixed capital investment. Industrialists are also holding back on fresh outlays of capital because of uncertainty over the impact of reforms and over what tariff cuts to expect.

Industrial output is still being buoyed up by the strength of rural demand. Farmers' incomes have benefited from four good monsoons and concessions such as the waiving of rural debt last year. But some industrialists believe that industrial growth could drop to 4 per cent - bringing the growth in real gross domestic product to below the 3 per cent increase being forecast by the Reserve Bank of India (the central bank).

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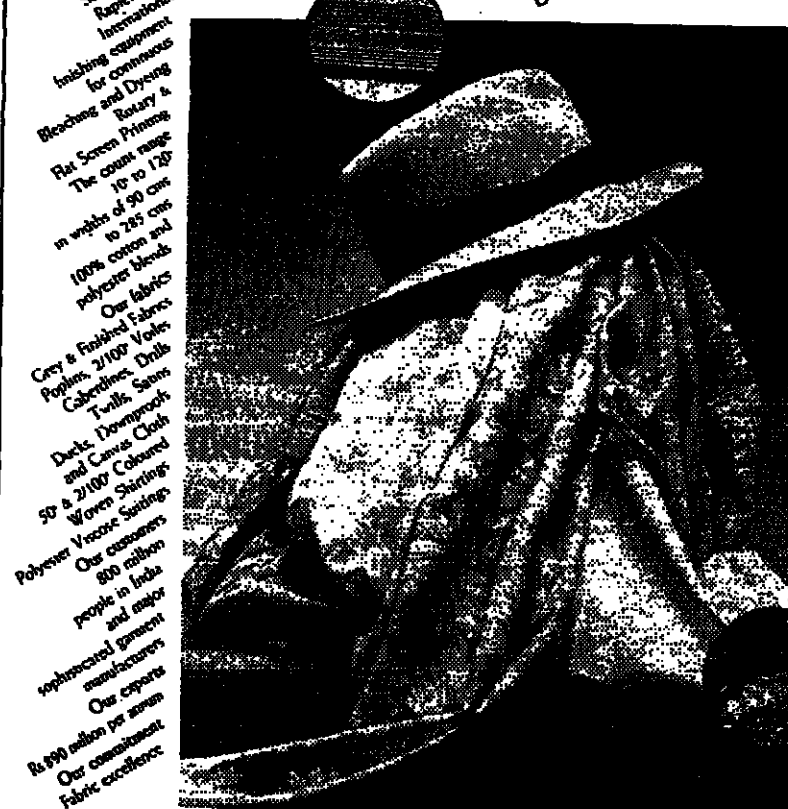
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INDIA 3

While the government plans to reduce expenditure, others argue that the forces need modernising

Defence cuts at odds with army demands

A NUMBER of recent developments have sent alarm bells ringing among the hawks in India's armed forces and the ministry of defence.

A financial crunch has forced the government to cut expenditure on defence in real terms, the Soviet Union - India's main supplier of sophisticated weaponry - is going through an internal upheaval and the recent Gulf war has shown that the three services are in need of modernisation.

The reappraisal that these events have prompted has caused contradictory pulls. The chiefs of the three services have made strong cases for acquisition of new weapons, arguing that defence preparedness cannot be sacrificed without harming national interests.

This has come at a time when the government is making studies to reduce expenditure and is, in fact, examining recommendations of a high power committee that recently scrutinised India's defence preparedness. This has recommended changes in the context of the country's new security environment.

The committee's recommendations will probably never be made public but they are said to be in line with the school of thought that favours a restructuring of the armed forces, making them more efficient while accepting that cuts in expenditure are inevitable as part of India's economic reforms.

The main argument of the doves, or those who believe that India must take current realities into account while planning its defence needs, is that the threats on the border have changed in recent years. They maintain that the Sino-Indian border does not need the same degree of protection that led to a massive increase in defence expenditure for more than two decades after the bitter and bloody war of 1962.

That this lesson is being accepted by the country's defence planners is borne out by the fact that the forces deployed on the Himalayan borders in the north-east were recently reduced by three divisions which were sent to Kashmir - reinforcing the widely-accepted belief that India's main adversary remains Pakistan, not China.

This, by itself, has not



A soldier in Kashmir: Most accept that the main adversary is Pakistan, not China

reduced overall defence expenditure but has strengthened the arguments of those who believe that the days of free spending on the armed forces are over and a more realistic approach is necessary.

This approach has already been reflected in decisions such as abandoning the plan to buy a third, and highly expensive, aircraft carrier or not adding to the existing submarine fleet. There are also clear signs that the programme to develop the army's armoured fire-power is being pruned.

The budget presented in July places defence expenditure in 1991-92 at Rs163bn which, taking inflation into account, makes for a reduction of around 8 per cent over the previous year in real terms. However, unlike the attempt by Mr Rajiv Gandhi during the end of his prime ministership to make an across-the-board cut, the reduction is to be applied unevenly.

Details are not being

announced for obvious reasons but clearly the chiefs of the three services are not happy at the decision. They argue that

cuts should be on the basis of a position of confidence, as part of an overall agreement with Pakistan and China. This is nowhere on the horizon, although bilateral talks with China have led to on-the-ground steps to reduce the pos-

sibility of clashes on the border.

That India's defence expenditure is well beyond its means, particularly at a time of the current financial stringency, is clear from the fact that it has been a high 3.8 per cent of gross domestic product (or even 5 per cent, if the outlays on the related fields of atomic

energy and space are taken into account).

Much of this is accounted for by imports of hardware. Although the defence import bill is also a closely-guarded secret, analysts have estimated this at variously at \$2.5bn to \$10.3bn a year in the past five years.

This has increased the str-

king abilities of the three services with the acquisition of more tanks, artillery and ships together with re-equipment with modern high-performance aircraft and upgrading of air defence infrastructure.

Accompanying this is the rising unit costs of weapons. The cuts will mean smaller imports although this does not necessarily mean that purchases from western sources will be the most greatly affected.

This is because supplies from the Soviet Union, the cheapest because they involved payment in rupees and on low credit terms, have become uncertain.

As it is, some analysts fear that the erratic supply of spares will soon make a considerable part of Soviet-supplied hardware useless for operational use.

The case of the hawks has been strengthened by the recent Gulf war and the ease with which sophisticated electronics neutralised Iraq's air force. Their case for expensive equipment to counter this is being met with the argument that in the future they need to deal only with Pakistan's limited capabilities and these have already been reduced because

of the cuts in US aid.

Yet the question of the reduction in defence expendi-

ture, if only because of India's current financial difficulties and pressure from the international lending agencies, remains difficult because of the problem of identifying the areas where cuts could be applied.

If Soviet-acquired weaponry is no longer reliable until supplies of hardware and spares again become assured, capital expenditure will need to be increased, rather than to be allowed to fall. At least part of the replacement costs will have to be on imports from western sources, particularly because of the slow progress of India's efforts to develop its own weaponry (projects such as the development of a main battle tank and an indigenous light combat aircraft have made notoriously slow progress at a high cost).

The answer seems to lie in cuts in manpower since, if it is accepted that China is no longer the threat it was, an army of over a million strong - the fourth largest in the world - is an unnecessary extravagance. A redeployment of forces could achieve much more within the new financial parameters.

K K Sharma
New Delhi

KEY FACTS

Area	3,287,590 sq km
Population	827 million (1990 estimate)
Head of State	President R Venkataraman
Currency	Rupee (Rs)
Average Exchange Rate	1989 \$1 = Rs16.23 1990\$1 = Rs17.50
	June 1991 \$1 = Rs21.06

ECONOMY

	1989	1990
Total GDP (\$bn)	260.1	276.3
Real GDP growth (%)	5.5	4.2
GDP per capita (\$)	320.0	334.0
Origin of GDP by sector (%)		
Agriculture	30.6	30.4
Industry	31.0	31.8
Services	38.4	37.8
Consumer prices		
(% change pa)	6.2	9.0
Ind production (% change pa)	5.5	11.0
Reserves minus gold (\$bn)	3.9	1.5
Narrow Money growth (% pa)	18.0	11.3
Broad Money growth (% pa)	15.7	12.0
Bank rate (% pa, year end)	10.0	10.0
Lending rate (% pa, avg)	16.5	16.5
Total debt stocks (\$bn)	62.5	70.4
Total debt as % of GDP	24.0	25.5
Debt Service ratio (%)	23.2	25.2
Debt per capita (\$)	77.0	85.0
Public sector deficit as % GDP	-6.0	-7.5
Current Account Balance (\$bn)	-7.5	-8.7
Exports (\$bn)	16.6	18.9
Imports (\$bn)	22.5	26.1
Trade Balance (\$bn)	-5.9	-7.2
Main Trading Partners		
(1990, % of total)	Exports	Imports
USA	18.6	9.7
USSR	13.1	7.1
Japan	10.9	9.2
Germany	7.5	8.7
UK	7.2	9.0
EC	27.1	34.4

Source: IMF, Economist Intelligence Unit, Datastream

S VENKITARAMANAN

Bank chief calm in crisis

MR S Venkitaramanan had a baptism of fire as governor of the Reserve Bank of India, the country's central bank, shortly after he was appointed earlier this year by former prime minister, Mr Chandra Shekhar, India's long-running balance of payments problems escalated into crisis as its foreign exchange reserves fell to dangerously low levels. There was a grave risk that the country would be unable to meet its day-to-day needs for foreign exchange, and that it would therefore have to default, creating a debt crisis similar to that suffered by many Latin American countries in the 1980s.

The new central bank chief played a key role in overcoming the crisis. He quietly gave firm undertakings to leading foreign central and commercial banks that India would not default, and he took emergency measures to meet the need for cash. These included sales and pledges of gold.

Indian banks no longer appear to have day-to-day difficulties in rolling over their short-term credit lines in the international money markets. With the immediate crisis over, Mr Venkitaramanan has been able to turn to the pressing structural problems of the Indian banking industry. He has also had to respond to rising inflation by tightening monetary policy.

Reforms of the financial sector are a key part of the liberalisation programme now under way. If the government commits itself to them wholeheartedly, the prize will be - as well as a \$500m World Bank loan to back them - a stronger, more competitive banking industry, and by implication a freer hand for the Reserve Bank to be a more independent and effective but less bureaucratic regulator.

The key man behind the economic reforms is Dr Mahmo-han Singh, the finance minister, who himself made a name as a firmly independent Reserve Bank governor. Much will therefore depend on the relationship between the two men. This is likely to be tested over the coming months by a series of decisions on appointments for chairmen of nationalised banks. The governor makes recommendations but the minister gives the final sanction.

Mr Venkitaramanan, 61, began his career as a civil servant in state administration, and gained experience of industry when he was appointed to turn round a troubled petrochemical company in southern India. He proceeded into central government, and held the top civil servant posts in both the commerce and finance ministries. He left office at the fall of the government of Mr Rajiv Gandhi, and re-emerged this year.

Will he take a more independent approach? "Autonomy and independence are two different things," he says. "Autonomy of operations is a totally desirable goal. But in the Reserve Bank of India, you cannot be independent of the central government of the country in taking decisions which affect the economic well-being of the people."

Mr Venkitaramanan plans to withdraw the Reserve Bank's representatives from the boards of nationalised banks - although the government representatives will stay.

He will not be drawn on the role of the large banking department within the finance ministry - and whether it should be abolished - but simply points out that the government has an interest as owner of the banks.

The area in which the Reserve Bank's role is unquestioned is in bank supervision. Here, Mr Venkitaramanan sees a need for the Reserve Bank to have more expertise in accounting and to conduct more rigorous inspections. But at the same time, he says there should be less interference in banks' operations.

As in many other areas of the economy, the ability to reduce the scale of bureaucracy while at the same time retaining simpler, firm regulation will only be tested as the government's economic reforms come into place.

The degree to which both politicians and bureaucrats are determined to pursue them in the financial sector will be shown in November when a special committee of bankers and officials makes recommendations to the finance minister on the financial sector.

After that, Mr Venkitaramanan could be overseeing a much more competitive arena.

Alexander Nicoll

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INDIA 4

Plans aim to achieve 'social lending with sound banking', writes Alexander Nicoll

Banks stray from the socialist road

INDIA'S banks are facing a reversal of the socialist philosophy which has guided their business for more than 20 years.

Since Mrs Indira Gandhi began their nationalisation in 1969, banks have been used as instruments of government policy to redistribute resources to rural areas and public sector industry, as well as to help fund the budget deficit through the channelling of a large proportion of their deposits into lending to the government.

Although the policy achieved many of its goals - especially by spreading banking services throughout the country's villages - it also created a monolithic, overstaffed, bureaucratic and inefficient banking industry with no competition, a distorted interest rate structure, poor loan portfolios, weak profitability, and a severely eroded capital base.

The government recognises that reforms of the banks are an essential underpinning to its liberalisation of the economy upon which it has embarked.

But there are few easy options. The key test of willingness to tackle banks' problems head-on will come in November when a committee of the country's top bankers and officials, appointed by the government, submits its recommendations.

Commitment to a credible reform programme would win a \$500m loan from the World Bank, now under discussion, specifically to support the financial sector.

The committee's broad terms of reference cover the efficiency, accountability, profitability, modernisation, competition, capital structure, supervision and legislative framework of banks, as well as their role relative to other financial institutions. They make no specific reference to perhaps the most sensitive issue, privatisation.

The possibility that banks will be privatised is already stirring the banks' enormous,

unions into industrial action, although a one-day strike planned for September 6 was called off after emphatic government statements that it had no plans to privatise them.

Dr Manmohan Singh, finance minister, says: "We have no intention to privatise existing nationalised banks... We want more competition in our banking industry but that does not necessarily mean that you must privatise existing nationalised banks."

Mr S Venkataraman, governor of the Reserve Bank of India (the central bank), which oversees the banking system, says that there are a number of ways with which to increase banks' capital base without privatisation, "even when there is complete public sector orientation, capital can be enhanced", he says.

He is especially attracted by the means used for French state-owned banks - which included non-voting stock - and has also suggested that other public sector entities, as important users of banking services, subscribe to stakes in banks.

However, it is unlikely that any prudent investor would agree to fund a capital restructuring of the banks in their current state without being assured of the commitment of government, bureaucrats, and the banks themselves to radical reform.

Mr M N Goiporia, chairman of the State Bank of India, the country's largest bank, is clear that India cannot simply abandon the concept of "social banking" which lay behind nationalisation and the subsequent direction of the banks. "The gains that have been made as a result of nationalisation cannot be frittered away," he says.

Through the expansion of branches - the banking system as a whole has some 52,000 throughout India - Mr Goiporia says that "a serious social need has been met". But he acknowledges that "the time has come for consolidation, to



A banking hall in Calcutta: 'the time has come to put the emphasis on profitability'

put the emphasis on profitability and productivity and the commercial aspects of banking."

The first issue which reformers will need to address is the extraordinarily high proportion of banks' deposits - currently totalling more than 53 per cent - which they must set aside for the government's use.

They must place 33 per cent of their deposits in government bonds and other eligible instruments as a "statutory liquidity ratio", and have cash reserve requirements under which they must place 15 per cent of their deposits with the central bank as well as 10 per cent of the incremental growth in their deposits. The return earned by banks on this money is break-even at best.

However, forcing the government to pay more for its money - either by reducing the proportion of banks' required investments or raising their yields - would only increase the fiscal deficit, which the requirements help to fund. Therefore, the government is adamant that it cannot alter the statutory liquidity ratio until the budget deficit starts to fall, as it is targeted to do this year.

Mr Venkataraman says: "There is agreement that the banks' profitability will depend

on whether we can allow them more free play with their money and less pre-emption for government requirements. That can happen the moment the deficit starts coming down."

Secondly, banks need greater freedom in lending. They are required to make 40 per cent of their advances to so-called priority sectors, essentially agriculture and small industry, at subsidised interest rates. The need for such support has considerably diminished.

Banks have also been directed to forgo loans - for example under a recent scheme when farmers' loans up to Rs10,000 were waived, damaging farmers' creditworthiness, reducing loan recoveries because of expectations of

further waivers, and weakening banks' financial state.

Banks often have non-performing loans out to effectively bankrupt industrial companies but are expected to advance new money to keep them operating. Their loan portfolios are thus in poor shape.

The third need is for banks to compete with each other, as well as with other types of financial institutions, in every field. Until recently, banks' customers were not allowed even to change their bank, and there was no competition on interest rates.

Specialised developmental financial institutions, also state-owned, have handled all longer term lending and have developed similar problems because of lack of competition

among themselves and weakened loan portfolios.

There have already been moves towards greater competition including the freeing-up of some interest rates. Foreign banks, which comprise a small but dynamic sector of the banking market, provide a strong competitive atmosphere at the margin.

Fourthly, nationalised banks need to shake up managements - implying much greater independence from the bureaucrats in Delhi and Bombay - and to address the most politically sensitive issue of all: their massive overstaffing and inefficient systems.

Trade unions have blocked significant modernisation and computerisation, resulting in poor customer service and a lack of information for management about banks' finances. The government is treading softly, suggesting that it will not be a question of large redundancies but of re-training and better use of the existing labour force.

Computerisation would make it easier to meet final need for better accounting systems and supervision of banks' far-flung activities. The Reserve Bank plans to beef-up its accounting expertise and inspection procedures, but this will be meaningless unless the banks themselves have better oversight of their businesses.

If all these reforms are begun, banks are likely to win substantial infusions of new capital, whether from the public or private sector at home or abroad. Many would find it difficult to remain in business without them. The ultimate aim, a senior official says, is to achieve "social lending with sound banking". It is a daunting task.

LENDING INSTITUTIONS

Legacy of the past a burden

BANKS have not been the principal source for longer-term finance in India. This role has been left to specialised development finance institutions operating at both state and federal level.

Though these were successful in channelling long-term funds to industry, their lack of competition with each other and their lending to concerns, which have run into financial troubles, have brought upon them similar weaknesses to those of the banks.

At the same time, there are facing increased competition from the banks and the capital markets.

If the government-appointed committee considering reforms of the financial sector decides upon a radical overhaul, it would include a shake-up of the term lending institutions. The chairman of the two largest - the Industrial Development Bank of India (IDBI) and the Industrial Credit and Investment Corporation of India (ICICI) - are members of the committee.

The third big institution is the Industrial Finance Corporation of India, while the Industrial Reconstruction Bank of India concentrates on what are known in India as "sick" industries. In practice, however, the financial institutions are a large interlocking network, with IDBI having shareholdings in several of the other large institutions as well as in many state bodies providing term finance.

Moreover, the country's main shareholding institutions, also state-run - Unit Trust of India, Life Insurance Company and General Insurance Corporation of India - are closely involved as purchasers of the debt of the institutions.

Although the institutions have a reputation as innovators and are looking forward to India's more liberalised economy with a degree of dynamism - assessing the prospects for new markets such as merchant banking - they are saddled with the legacy of their past.

Their lending policy has been monolithic. Loans have been arranged through consortia, with no question of competition for business. They have used the same procedures, and have not conducted analysis of projects independently of each other.

Recently, however, the start of deregulation of interest rates, with the government specifying a "minimum lending rate", and also introducing more competition into the raising of funds by the institutions themselves, have begun to usher in a new era.

They also face pressure to relax their hold on companies because they often can put directors on to the boards of companies they finance.

Any restructuring, however, will have to deal with the large proportions of their loans out to sick industries in the public sector. Bankers believe that the institutions' profitability is likely to decline further - although not fatally - as a result of these.

For the private sector, the Board for Industrial and Financial Reconstruction is charged with rehabilitating or closing troubled companies (although it operates under severe constraints because it can only step in when a company's net worth is completely eroded). However, the government has yet to formulate a so-called "exit" policy for public sector companies to determine the conditions in which they should be closed down.

Government policy, principally the protection of jobs, has tended to prevent measures which would allow sick companies to adjust themselves or to close. It has also provided an incentive to companies to exaggerate their problems and to refrain from tackling them.

A new "exit" policy will be of crucial importance to the lending institutions who have financed these industries and could well determine their longer-term future.

Alexander Nicoll

PROFILE: HDFC

Mortgage pioneer under pressure

INDIA is a country with a massive shortage of housing. Hence the concern of housing finance institutions that the momentum of new lending to young families purchasing a house for the first time could be hit by the government's credit squeeze.

The institution that has done most to pioneer the concept of mortgages in the country is a private sector organisation, Housing Development Finance Corporation (HDFC).

Started in 1977 in the face of much scepticism that financial institutions could ever recover mortgage payments, HDFC now runs 350,000 accounts for individual house purchasers. Its success has spurred the state owned banks to establish their own mortgage businesses.

Over the past 14 years, housing finance institutions have increased their share of investment in new housing from a meagre one per cent to 15 per cent. But the number of new houses being built each year falls far below demand. Of India's 180m urban population (on the basis of 1981 figures), 32m to 42m live in slums.

To meet additional demand, 2m houses will need to be put up each year. At the moment about 300,000 new units are being built annually. HDFC, which is managed by Deepak Parekh, aims to help young families acquire a house and to increase the stock of housing in the country.

A typical client of HDFC is an urban household with a combined income of Rs3,000 to 5,000 a month. Because land prices are so high in India, the ratio of house prices to incomes is 10:1 as compared

with 4:1 in most western economies.

India's shortage of housing has been in large part due to government policies since independence. These have channelled household savings into so-called "priority" - from agriculture to steel mills. In the directed credit system still maintained by the Indian government, housing is not treated as a priority.

HDFC at its outset ran into problems unfamiliar to building societies or mortgage banks in the west. One was that in India buyers and sellers

of a house do not declare the full price of the transaction as purchasers are expected to pay part of the cost in "black" money.

HDFC normally finances up to 90 per cent of the agreement price which is on average about two-thirds of the real price. Sceptics doubted whether HDFC would be able to recover interest and principal repayments because the recovery rate of nationalised banks on other loans is so poor.

Loan default was implicitly encouraged by the government last year when it waived some Rs40bn in farmers' debts. But HDFC has a only a marginal proportion of borrowers who default on payments. Only 0.03 per cent of clients are more than six months behind in their debt repayments.

He says that loan officers are encouraged to work with families to find ways of making payments in times of difficulty - such as during an industrial strike.

HDFC has until recently obtained a third of its resources from foreign currency loans - including borrowings from the World Bank and a loan guarantee from US Aid for a borrowing on the US capital markets.

The rest has come from term deposits and loans from the financial institutions. In sharp contrast to Britain, where 50 per cent of cash assets are in building societies, Indian housing institutions are forbidden by law from taking deposits of less than 24 months maturity.

This year, however, HDFC is finding resources difficult to raise and more costly. The halt that India's foreign exchange crisis has imposed on borrowings abroad by Indian institutions has robbed it of this source of funds. Domestically it has been hit by the credit squeeze. Thus its average cost of funds has risen from 12.5 to 13 per cent a year ago to 14.5 to 15 per cent.

The immediate effect of this has been to put its margins under strain. It fears the burden on families if it passed on the entire cost of interest rate increases. HDFC has now taken the initiative in co-ordinating new housing finance schemes with other countries in Asia. The emphasis is on drawing in low-income households.

David Housego
New Delhi

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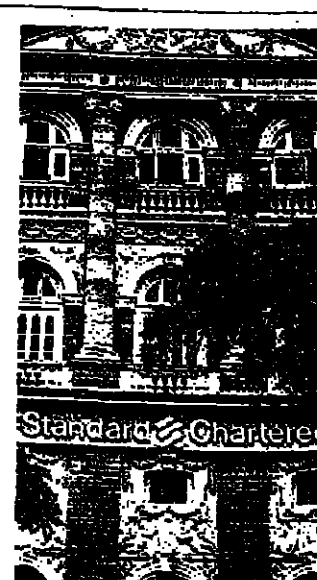
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Capital markets face criticism

Regulation a tough task for the board

THERE are not many stock markets of which the leading regulator would say of investments in shares: "Entry, holding and exit are all hazards in this market." This is the frank admission of Mr G V Ramakrishna, chairman of the Securities and Exchange Board of India.

The SEBI was formed three years ago as part of a drive to simplify and strengthen regulation of India's large capital markets. However, it remains virtually toothless until a bill now before parliament, is passed to give it statutory regulatory powers as well as responsibilities now held by several other official bodies.

It will have a big task. There is a wide gap between the efficient, fair, modern and national trading mechanisms which leading practitioners foresee in the future and Indian markets as they exist today. It will be especially important to have sound capital markets as the government seeks a more competitive economy under its reform plans.

India's established stock-broking community, faced by widespread criticisms of its practices, is seeking to improve and modernise them. However, it may be too late. A government-appointed committee, headed by Mr J J Pharewani, former chairman of the huge Unit Trust of India, has recommended a completely revamped national market system and a new stock exchange in Bombay.

Because of an uncertain political situation and delays in authorisation by the Controller of Capital Issues, new issues of equity and convertible bonds fell sharply in the last financial year. However, large companies such as the Reliance and Tata groups can still raise substantial amounts of money.

The country's principal markets are its 10 stock exchanges, of which Bombay is by far the largest, accounting for 65 to 70 per cent of business. Although

government securities represent the largest amount of securities issued, there is little trading in them. However, there is active trading of shares, and this year it has been particularly buoyant with the market rising sharply, often moving against international trends.

Mr Hamendra Kothari, president of the Bombay Stock Exchange, says the market is taking a long-term view of the prospects for India's private sector in a more decontrolled economy, even though growth in corporate profits is expected to decline this year.

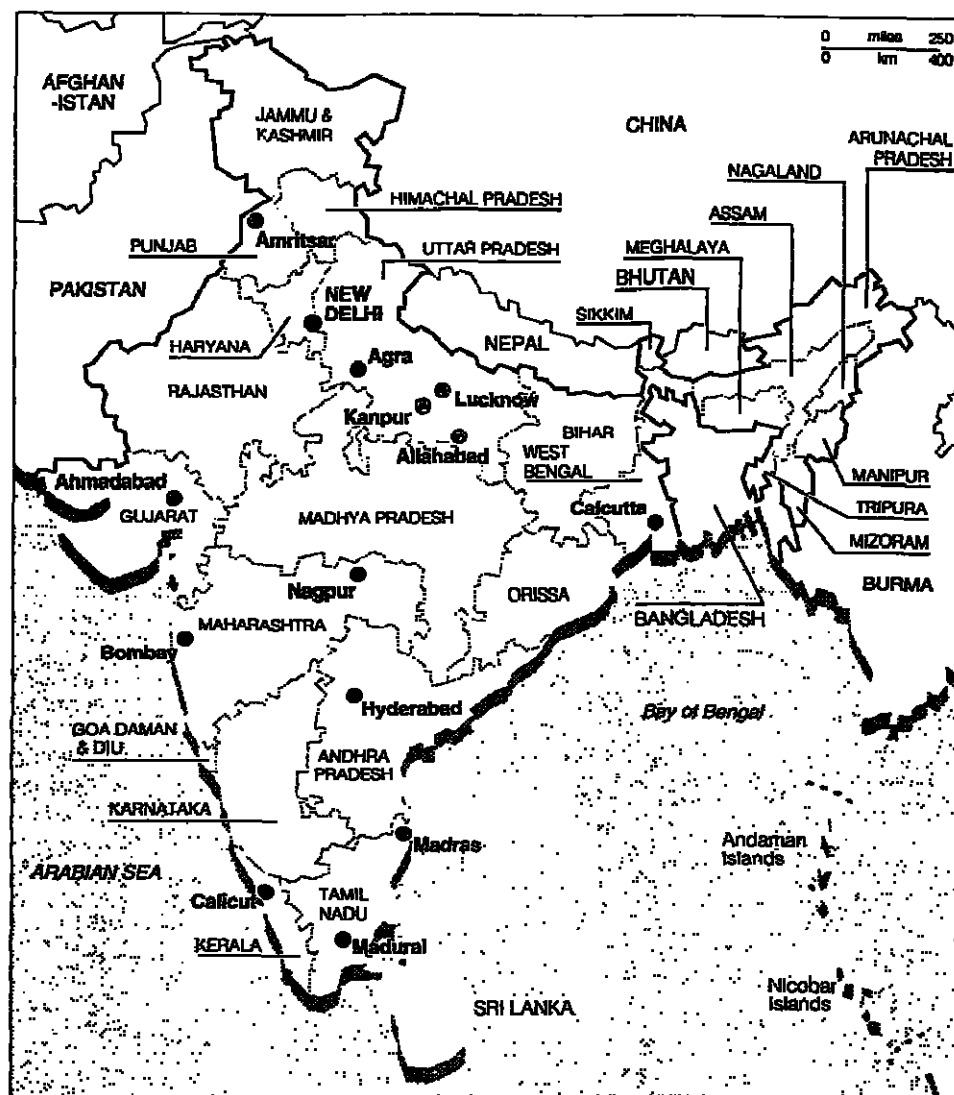
Institutions such as government-run mutual funds - private mutual funds are planned but not yet allowed - are extremely liquid, and supply of new issues has been limited. However, some bankers believe Indian industry could face a tougher environment when the country's high tariff barriers come down - a process expected to begin next year.

It is clear that there is a strong speculative element in the markets. The Bombay exchange recently increased its levels of margin - down-payments as security - to 40 per cent of the value of transactions in active stocks, from 25 per cent previously. About 90 per cent of trades are carried forward from one settlement period to another and do not result in delivery.

While Bombay dealers engage in this frenetic activity, investors and issuing companies are unhappy. Mr Ramakrishna says the SEBI receives about 500 complaints per day. These are some of the market's inadequacies:

- Liquidity is poor. An inadequately capitalised jobbing system creates erratic bid/offered spreads.

- New issues are absurdly underpriced - the government sets them. This creates a speculative rush and multiple applications. Prospectuses may tell less than the whole truth.
- Insider trading is rife. Mr



Kothari admits that the concept is not well understood. Corporate disclosure standards are weak.

- All systems are inadequate. The Bombay exchange trades for only two hours a day four or five days a week, but cannot keep trade processing and settlement up-to-date. There are mis-matches - disagreements on the details of trades - on 30 to 40 per cent of reported trades. Reported prices and volumes are unreliable. The market is fragmented with inadequate links between exchanges.

- Delivery of shares is woefully bad. Companies can delay transfer of shares to new owners as a means of manipulating prices.

The Bombay exchange has begun to tackle these problems with a plan to upgrade its technology, introducing screen-based trading for less active stocks, leaving active stocks for open outcry trading.

Meanwhile, considerable momentum has built up behind the recommendations of Mr Pharewani's committee, which include a second stock exchange in Bombay provocatively called the National Stock Exchange. The committee proposes an integrated national stock market system creating much closer links between exchanges through streamlined systems and telecommunications.

The new Bombay exchange would deal initially in bonds and medium-sized stocks, to which the committee says the existing exchange has paid no attention. Mr Pharewani's public posture is that this would complement the present exchange, but the proposal has clearly been interpreted as a threat. The Bombay exchange feels that an alternative stock exchange would confuse investors, particularly abroad, and weaken the liquidity of each market.

Whoever wins this battle will undoubtedly have, in any case, to fall under a tighter system of regulation as the SEBI takes on its new powers. Although it plans to create a self-regulatory system along the lines of London's structure, with self-regulatory bodies overseen by SEBI as an umbrella, some aspects will be statutory, such as a takeover code. Mr Ramakrishna believes that the market lacks the self-discipline for voluntary code.

The capital markets may therefore be one of the few sectors to see tougher regulation, though without too much cumbersome bureaucracy, amid the new liberal atmosphere. Mr Ramakrishna says: "There is call for a great deal of liberalisation in some areas, but there is also call for more meaningful protection of the investor in other areas."

Alexander Nicoll

Industry pundits see reforms as limited in scope

Government tentatively tackles the public sector

SUCCESSIVE Indian governments have dodged taking the tough decisions needed to improve the performance of India's gargantuan public sector. Prime Minister Narasimha Rao's administration has announced its commitment to reform - but approaches its prey with the nervousness of a gamekeeper who fears that he could be swallowed live.

The government has already said that it will sell up to 20 per cent of the equity of selected public companies to state-owned mutual funds - and possibly to the public. Mr M Khamra Reddy, the finance director of Hindustan Machine Tools (HMT), the state-owned machine tools manufacturer that also makes watches, says that in management terms "by giving up to 20 per cent of the shares there will be absolutely no change".

In certain limited areas such as hotels, the government is planning to shed its holdings. The Indian Tourism Development Corporation (ITDC) is having its chain of about 24 hotels valued with a view to seeking foreign partners who could both take an equity stake and manage the hotels.

On the two key issues of providing more autonomy to public sector managers, and of allowing cuts in the labour force and closures in the state-owned sector, there has been more rhetoric than action.

Dr Manmohan Singh, the finance minister, announced in his budget that the government would set up a fund to provide a safety net to finance early retirement. He said that contributions would be sought from public sector units, state governments and private industry. But as yet there has been little follow-up.

The Indian public sector overshadows the Indian economy. On the widest definition - including railways, power, telecommunications, coal steel and industrial enterprises owned by central and state governments - it accounts for half of India's fixed capital investment and two thirds of the value added in the "organised" sector of the economy. Returns on capital and profitability have been low by

comparison with the private sector. In 1990-1991, while private sector profits rose sharply, the public sector's net profits dropped by 37.8 per cent, according to the report of the Department of Public Enterprises.

Although the government this year has cut public sector investment because of budget restraints, the government will still have to provide the public sector with Rs80bn. A World Bank report published in 1988 estimated that overmanning in the public sector was between 235,000 and 300,000. Many people think this figure is conservative and that in some areas overmanning could account for 40 per cent of the labour force.

Public sector losses and inefficiencies are not only a drain on the budget and push up interest rates on the capital market. They are also passed through the economy in terms of higher costs, often poorer quality products and in delays in delivery.

There are, however, wide differences between the public sector enterprises. The biggest losses have been concentrated in coal, steel, heavy engineering, fertilisers, shipyards and textiles. The most profitable companies have been the Oil and Natural Gas Commission (ONGC) and Oil Corporation of India which benefit from a virtual monopoly. ONGC, however, has come under criticism this year for bad management of wells and for allowing oil exploration to slip.

A number of public sector enterprises have a reputation for good management. They include Indian Petrochemicals Corporation (IPCL), HMT, Bharat Electronics (BEL), Earth Movers, the National Thermal Power Corporation (NTPC) and Maruti, the car manufacturer.

Public sector corporations also operate with incentives and constraints that deter improvements. They have to seek government approval for investments and even for such expenditures as the chairman travelling abroad.

Like government departments, they are subject to inspection by the Auditor Gen-

eral's department. His concern is more on detecting waste and misappropriation of government funds than on financial performance. Public sector units have been judged by the Supreme Court to be an instrument of the state under the constitution. They thus face threats of prosecution for violating an individual's fundamental rights - for instance, by allocating a car out of turn. They benefit on the other hand from purchasing and procurement privileges over the private sector in tendering for contracts from government departments.

The perceived wisdom among politicians and technocrats in Delhi is that public sector reform can be carried through without privatisation. Mr E C Bhargava, managing director of Maruti, disagrees. He says: "The only answer is privatisation. With the constitution and laws that we have it is not possible for the government to distance itself [from public sector companies]. Thus efficient management is not possible."

Mr Bhargava has said that he wants Maruti, in which Suzuki of Japan has a 40 per cent stake, to have a majority private shareholding. State-owned industries are still unclear what the government intends to do with the public sector and how the measures already announced will affect them. Over recent years they have learnt to depend less on the government for funds and more on their own reserves and the borrowings they can make in the capital markets.

Many have already felt the first stirrings of competition as the private sector has been allowed to compete in areas that were before reserved to public sector companies.

But most loss making units will have little chance of returning to profitability until they can reduce their labour force. The test of public sector reform will be the government's "exit" policy - and thus the attitude it takes towards redundancies and closures.

David Housego

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INDIA 6

Gita Piramal looks at the new industrial policy

Change sweeps in

SOMETIMES the expected becomes the unexpected. Before the P V Narasimha Rao administration announced the new industrial policy (NIP) on July 24 this year, most people presumed it would be radical. None foresaw just how revolutionary it would be.

At one stroke, the 10-page document devalued, deregulated and decontrolled vast chunks of the economy. Reactions were extreme. Professor Madhu Dandavate, former Janata Dal finance minister, immediately disparaged the NIP's "fire brigade approach". The confederation of engineering industry called it "outstanding".

Boldly breaking away from the traditional Nehruvian brand of socialism, the NIP clearly enunciated a set of eight objectives which centred round two basic needs. Firstly, to encourage entrepreneurship and usher in new technologies, the government would dismantle "redundant excessive controls", develop the capital markets, and abolish monopolies. Secondly, the Indian econ-

omy needed to be integrated with the rest of the world. So instead of "permitting" foreign investment, India would now "welcome" it in the hope that it would "bring better technology, expand production and help increase exports".

Fifty days after the event, doubts have begun to creep in. Mr JRD Tata, chairman Emeritus of India's biggest business house, recently warned fellow businessmen that now "the private sector will have to do a considerable amount of self-policing, learn to live with the perils of competition and deny itself the joys of a protected market." Pampered for the past four decades, lobbies from the private, public and co-operative sectors are reluctant to heed Mr Tata's advice.

They are chipping away at the NIP's edges and with some success. In order to protect its own turf, a politically well-connected business house has ensured that the petrochemical sector remains licensed. Despite the broad-banding principle, Telco, a truck manufacturer is blocked from mak-

ing passenger cars.

The milk co-operatives are upset that big business may be allowed into this sector. Overt opposition from politicians, bureaucrats and labour is also multiplying. Politicians, by and large, neither understand the NIP's implications, nor care.

The bureaucracy does not like the NIP because it will reduce the discretionary powers which civil servants find so profitable. Those in the labour force do not want the NIP because they are frightened that the winds of competition may blow their jobs away.

"I only hope that vested interests will not put pressure on the government to dilute implementation," said Mr Sri-chand P Hinduja, head of the \$2.1bn Hinduja group, which has interests in construction, film and engineering.

Commitment is limited to the tiny core of top bureaucrats who are spear-heading the structural reforms. There is a real fear that these key individuals may be eased out under pressure. Aware of the awesome might of those



Factory workers: The labour force fears job losses

against the liberalisation movement, the core group is working overtime to make the NIP irreversible.

Gordian knots of red tape are being sliced, bureaucratic procedures simplified and laws brought into line with reality with breath-taking haste. A record number of rules and regulations have already been abolished.

Entrepreneurs no longer need cabinet approval for projects. Trade laws are simpler. There is a new takeover code, a new small scale industries policy and a new telecom strategy. Bottleneck bodies such as the director general of technical development, the chief controller of imports and exports, the export inspection agency and the state trading corporation are either being abolished or reduced in importance. Capital market reforms are being energetically discussed as well as the role of the controller of capital issues. Its power will be sharply clipped once the proposal is passed that companies no longer need its approvals for issues under Rs25m.

It is widely expected that pivotal acts such as those governing foreign investments (FERA) and monopolies (MRTP) as well as the companies act will be amended shortly. By correcting these Frankenstein's, the government will simultaneously force healthy competition and reduce corruption among the bureaucracy.

Even if all goes as planned, questions remain. Will businessmen respond to the new opportunities? Can the NIP make India globally competitive? Are multinationals truly welcome or is this just dust for World Bank and IMF eyes? What will corporate India look like after five years? The long-term looks just as optimistic as the short-term appears pessimistic.

The liberalisation program is radical. It will take three possibly more - years before the benefits are visible. Until then, most economists predict inflation and social unrest, although the good monsoon is a redeeming feature.

Clearly, the NIP will quicken the pace of industrial growth,

as past experience shows. The limited liberalisation of the 1980s led to an amazing consumer surge which in turn fuelled a 10 per cent industrial growth rate.

The current reforms should have an even bigger impact, but not immediately. As Mr N Vaghul, chairman of the industrial credit and investment corporation of India, points out: "The high cost of money is hitting fresh capital investment".

With interest rates of 21 per cent and above, the viability of any projects starting today is uncertain. Most businessmen appear to be holding back on new investment, if they can, until rates come down.

Inevitably corporate India will look quite different. The composition of the big business houses will change significantly as operational efficiency, marketing and other managerial inputs become more important than political connections.

As competition increases, analysts predict many more takeovers and mergers as in the West. The quality of Indian products are expected to improve dramatically although it may not directly lead to India becoming a global operator.

Nonetheless, "companies who export will do far better than those which are basically geared to import-substitution" says Dr Freddie Mehta, economic adviser to the Tata group. From this, it is evident that economic liberalisation is today a juggernaut that is impossible to stop. Mr Singh is more than half-way to fulfilling his dream of going down in history as the man who uncaged the Indian tiger.

Few possess the cash to set up a steel plant

Freedom has a price

THE sad reality of corporate life in India is that the moment the government levels the industrial playing field by removing controls, businessmen suddenly realise that they do not, in fact, like free and fair competition.

This dismal point is becoming increasingly visible in almost every sphere of economic activity, particularly in the steel sector. "Liberalisation is good" - but not in my business - is the refrain suddenly being sung by Indian captains of industry.

In Dr Manmohan Singh's brave new world, anyone may now promote an integrated steel plant. On July 24, 1991, the new industrial policy reversed a 41-year-old tradition reserving steel for the public sector.

In January, the government received 49 applications from the private sector, all clamouring to expand into steel. After July, there was a sudden, curious silence. By August, almost half had backed off abruptly once the ability to raise large sums of money became more important than the cornering of a licence.

Nonetheless, if all the remaining paper applications take concrete shape, India could add an incredible 20m tonnes per annum (mtpa) of steel capacity, easing the existing famine considerably.

During 1990-91, India produced 13.4mtpa of steel and imported 1.5mtpa. Per capita consumption is 16kg but is supply-determined rather than demand-determined. If iron and steel were freely available, demand would shoot up. According to the planning commission, the demand for finished steel will exceed 18mtpa by 1995.

The price tag for the projected capacity is over Rs500bn. However, it is unlikely that local entrepreneurs will be able to raise this kind of money. One consequence of 40 years of tight government controls is that few Indian business groups possess the financial muscle which large industrial complexes need.

For example, the cost of a 1mtpa crude steel plant is roughly Rs25bn at today's post-devaluation prices. Businessmen will thus need sufficient resources to provide for their equity contribution as well as a glamorous reputation among investors to attract support for a long-gestation project.

The magic mix should also include the ability to raise foreign funds and tough managerial competence and to be able build an entire township round

a plant located in a possibly remote part of India efficiently and cost-effectively.

The Bombay-based Tata group, India's biggest business house, is perhaps the only one to possess all these attributes.

The highly diversified 78-company group runs the only privately-held steel company in the country, Tata Steel, which is currently expanding its existing 2.3mtpa capacity to 3mtpa.

It is one of the few Indian business houses known outside the country. It is a strong management cadre and is financially well-stacked. Additionally, Mr Ravi Modi, Tata Steel's chairman, is confident that some member companies will pitch in to help him.

All these traits will play a crucial role if, as is widely expected, Tata Steel's proposal for a Rs15bn, 1mtpa integrated steel plant at Daltari in the state of Orissa is accepted. Of the remaining 30 or so entrepreneurs who also have dreams of steel, four stand a fighting chance:

● The Essar group. Last February, it successfully outbid the steel majors for a Rs10bn 1mtpa crude steel project at Vijayanagar in Karnataka.

The group's plus points are managerial competence (it operates the biggest sponge iron plant in India), its proven ability to raise large amounts from the capital markets and excellent political connections. It is also a nimble head-hunter and has already drawn the head of Bhilai Steel into the Vijayanagar project.

But it is a relatively small group with sales last year of only Rs500m and has over-sized ambitions. Of greater significance is the rupee's devaluation and inflation. "We are reassessing the project's cost," admits Mr Ravi K Rnia, the group's director. Coal linkages could be another source of anxiety.

● Mukand. Operating India's biggest electric arc furnace complex, it wants to integrate backwards through a Rs20bn 1mtpa crude steel plant in Madhya Pradesh.

Managerially competent and with the right political connections, Mukand could probably make a successful domestic mega-venture and be able (with some difficulty) to put forward the promoter's equity.

Nonetheless, Mukand will have to turn to Bajaj Auto (BA), a sister concern and a scooter manufacturer, for financial help.

Exactly how much help Mukand will get is uncertain. Mr Rahul Bajaj, BA's chairman, is guarded. "As a Bajaj

group company, Mukand's expansion plans will have support, but it is premature to talk about the kind of support that may be required," he says.

● Grasim. Mr Aditya Birla's flagship, is proposing a 1mtpa steel plant at Maharashtra.

The project has several strong points. Mr Birla has wide experience of erecting large industrial complexes in a timely and cost-effective manner.

The group enjoys excellent political connections, is cash-rich and can easily raise funds both locally and internationally. It is already running a highly-profitable aluminium company and is in the process of setting up a sponge iron unit.

The problem is one of plenty. Most group companies are busy expanding their existing businesses. Grasim, which is India's second biggest business house has also drawn up ambitious blueprints for a total investment of over Rs500bn. Over the next couple of years, the steel plant will have to compete for the management's attention with projects such as an oil refinery, a power plant and new tyre, cement and aluminium facilities.

● Mahindra. Already operating one of the most efficient special steel companies in India, the move into crude steel in Maharashtra will be one of backward integration for the group.

Key factors in its favour are engineering experience and a high quality of corporate culture. In common with Mukand, the Mahindra group may find it difficult to raise the promoter's contribution. Unlike Mukand however, it appears that the entire group is backing the project.

One crucial difference between the Mahindra proposal and the others is that the group plans to bring in a foreign collaborator. "We hope that whoever it is will provide a substantial chunk of the project's equity," says Mr Anand Mahindra, who holds key positions in the Rs15bn group's two biggest companies.

Clearly, India will increase her steel capacity over the next few years. Equally evident is that government go-aheads are no longer licences to print money as they used to be. Would-be steel barons will need to develop an alloy of entrepreneurial dynamism with a way of tapping into large resources before they can succeed.

Gita Piramal
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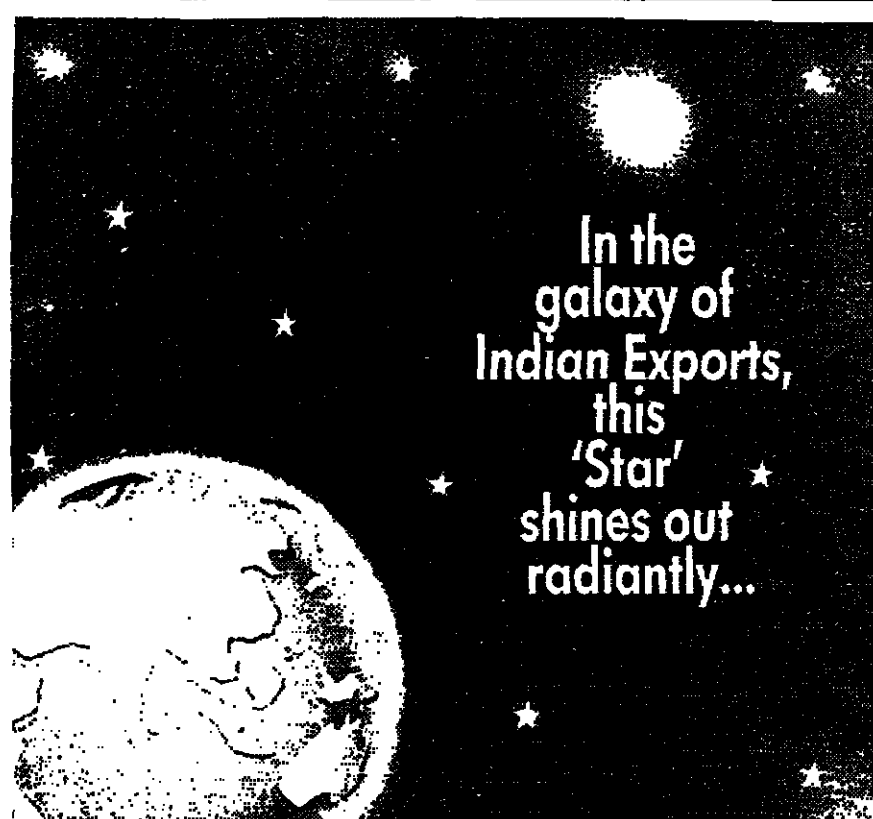


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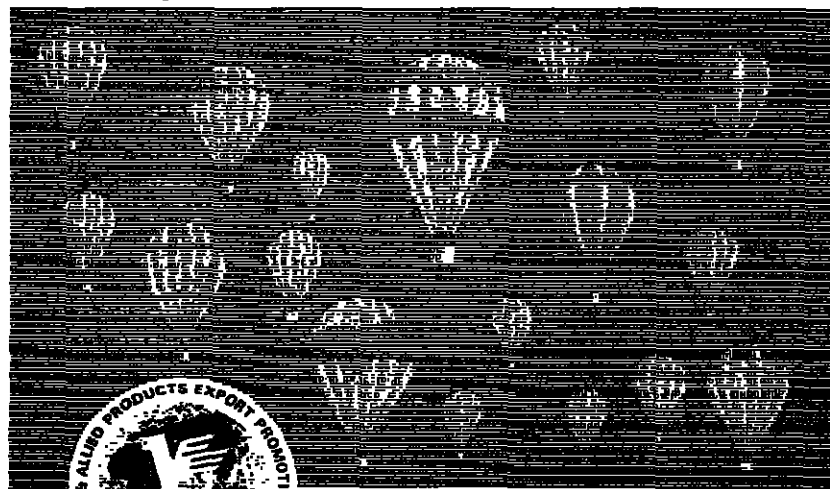
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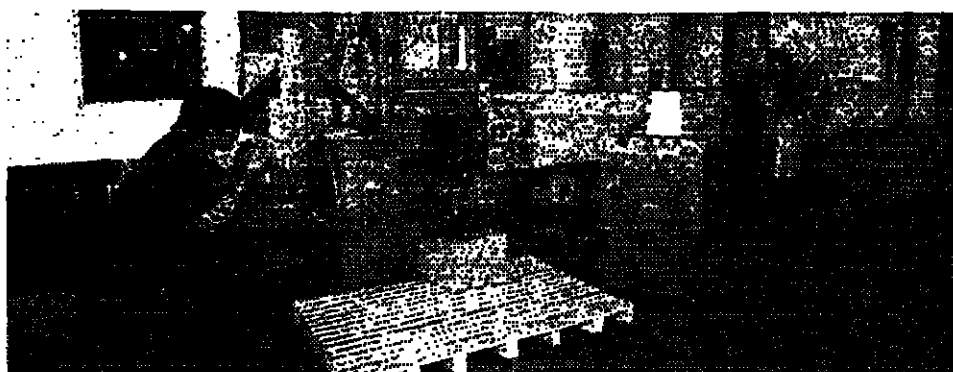
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INDIA 7

Watchmaker has captured a large chunk of the domestic market

Titan's productivity rising



Worker at the factory. Titan has become known by stylish design and aggressive marketing

ANYBODY who doubts that Indian industry can manufacture products at a cost and quality to match South East Asia should ask to visit the Titan watch factory east of Bangalore.

Titan, a subsidiary of the Tata group, went into production four years ago. Its US\$50m plant — stone built amid a carefully landscaped tropical garden — is an integrated unit where precision engineers make all parts of a watch from movements to casings from Titan's own designs.

The pieces are put together in an assembly shop that is as dust-free and clean as a laboratory. The average age of the work force — all recruited from local village schools after aptitude and attitude tests — is 22.

Mr Kamesh Desai, the founder and managing director of Titan, claims: "We have the competitive advantage of low labour costs and of productivity levels comparable to anything in the world."

Titan is still a midget by world standards producing 3m watches a year as compared with the 178m movements manufactured by Citizen, the Japanese manufacturer and the largest watch company in the world.

But in four years it has captured over 50 per cent of the

Indian market for domestically produced quartz watches. It has also made a name for itself by stylish design and aggressive marketing to an Indian middle class hungry for more fashionable products.

Titan was set up as a joint venture between the Tata group and the Tamil Nadu government to take advantage of the lock of competition in the Indian watch market. The only large producer when the project

was conceived was HMT, the state-owned machine tools company also based in Bangalore. They produced functional time pieces rather than fashion products.

Titan reckons that 20m watches are sold in a year in India — a market growing annually by 2m. But half those sold are smuggled into the country. India forbids the import of watches. Smugglers bring the movements into the

higher price for a reliable product from what he knows to be a reliable shop".

Titan, building on the Tata's image of reliability, has established its own chain of watch shops which also sell other fashion items such as jewellery. Smuggled watches — as well as other brands — are often sold by watch repairers in back-street shops.

Titan's growth reflects both the frustrations that have long beset the creation of a company in India and the opportunities that are emerging with liberalisation.

Mr Desai began his quest to establish a watch company as long ago as 1977. For many years, Tata, one of the biggest Indian conglomerates, was told that this was a sector reserved for small scale industry. It was not until Mr Rajiv Gandhi's liberalisation measures of 1985 that Tata got the go-ahead.

The new government's recent deregulation measures will force the company to make decisions over components and capital equipment supply that

were formally determined by licensing regulations. Until recently it was necessary to buy printed circuit boards from a state owned semi-conductor plant in the Punjab with a poor reputation for deliveries and reliability.

Exports — expected to build up to 500,000 movements a year in 1992 — are still a relatively small part of sales. Titan's costs are higher than those in Hong Kong and Japan because it suffers from a 60-80 per cent customs duty on imported capital equipment. Mr Desai shifts this cost differential to the watches he sells in the domestic market.

"All government intervention which leads to higher costs I shift to the domestic market," he says. He sees exports, however, as an important part of his strategy.

"In terms of the corporation's objectives, we want to be a major player in the world watch market. This is a beginning."

Titan expects to see its production climb to 10m in the next few years. It plans to standardise parts to achieve higher volumes. It is also widening its range through a new joint venture with Timex of the US by which it will make plastic movements.

David Housego

PROFILE: P CHIDAMBARAM

Minister keen to see import curbs relaxed

Mr P Chidambaram, the minister of commerce, says that cutting tariff levels to an average of 30 per cent would be a desirable objective for India.

For a country with one of the highest tariff levels in the world — the average weighted tariff is over 112 per cent — such a reduction would mark a radical shift in policy.

But Mr Chidambaram adds a

'The main problem is not the loss of revenue from customs duties but the foreign exchange shortage'

note of caution. "That would be desirable (a 30 per cent tariff level). But whether it would be achievable in the medium term is something we have to wait and see."

He feels that the main problem is not the loss of revenue from customs duties but the foreign exchange shortage. "If we allow large imports of capital goods that would mean a severe drain on foreign exchange."

A lawyer from the southern state of Tamil Nadu, Mr Chidambaram was a junior minister in the Congress government of Mr Rajiv Gandhi. As a close associate of the former prime minister, he was involved in drawing up the package of economic reforms that went into the Congress party manifesto.

When prime minister P V Narasimha Rao formed his government he was angry that he was not given a post in the cabinet — and let his irritation show. Since then, however, he has been one of the ministers most concerned with presenting the government's reform package.

At 46, he is self-assured, articulate and ambitious. But his popularity in his native Tamil Nadu has taken a knock after the government was perceived as supporting the neighbouring state of Karnataka in the dispute over the division of the waters from the

Cauvery river. As a result of this dispute his car was stoned when he was on a recent visit to the state and he was injured.

As minister of commerce he has had responsibility for the partial delicensing of imports, the introduction of exim scrips — the new instrument that links the volume of imports to the growth of exports — and to new incentives for export zones.

The biggest blow to his policy of tariff and import liberalisation has been the unexpected drop in exports for the first quarter of this financial year.

Exports fell 6.6 per cent in dollar terms in the April-June period as against the same period last year — so reducing foreign exchange receipts. Understandably, he has blamed this on his controversial predecessor, Dr Subramanian Swamy. Both by coincidence were at Harvard.

Officials say the drop in exports was mostly due to the exceptional curbs on imports imposed to prevent India defaulting on payment of its foreign debt. They expect exports over the current year to grow by a still disappointing 8 per cent in dollar terms — hopefully rising to 18 per cent next year.

Mr Chidambaram has been campaigning hard to get the import curbs removed for export industries.

Mr Chidambaram believes

'The government will move rapidly to remove obstacles that have blocked foreign investment proposals'

that as a result of the new measures foreign investment will pick-up. He says the government will move rapidly to remove obstacles that have blocked important foreign investment proposals.

"We will clear at least a dozen proposals before the year is out," he says.

David Housego finds the electronics group reviewing its strategy

BEL hit by defence cuts

BEHARAT ELECTRONICS (BEL), the diversified electronics group with the reputation of being one of India's better managed public sector companies, is in an introspective mood.

Government spending on defence — which accounts for 57 per cent of BEL's turnover — has been falling. Expenditure cuts and increased excise duties have also hit sales of telecommunications and broadcasting equipment, and of electronic components — all important markets for BEL.

Capital spending this year is half as high as in recent years because credit is tight and the government has temporarily banned the import of capital plant from abroad. Also, as a result of the foreign exchange shortage, BEL can only obtain 40 to 50 per cent of the imports of raw materials and components that it requires. Imported parts are normally the equivalent of 25 per cent of turnover which in 1990-91 reached Rs7.2bn.

Mr P D Modak, the newly appointed chairman of the group whose headquarters are at Bangalore, believes in making the best of the difficult situation.

He sees the problems as "an opportunity more than a threat."

They will force us to rely on our own resources. It is better that we don't have soft options any more," Mr Modak has thus embarked on a review of BEL's corporate strategy designed to

BEL is a conglomerate that now finds itself in too many products and too many sectors

take advantage of the openings provided by industrial deregulation.

BEL is a conglomerate that now finds itself in too many products and too many sectors. This is a reflection of its role which was originally conceived as one of making India as self-reliant as possible in defence electronics and in communica-

tions equipment. BEL was set up in 1954 but expanded after India's war with China in 1962.

It now produces radars for civil and military use, weapons guidance systems, microwave transmitters, TV studio equipment, satellite stations, antennas, television tubes and a wide range of components. A recent venture was the manufacture of electronic voting machines. But orders by the central government have dried up leaving the assembly line idle.

The large growth of turnover in the past 10 years has not been matched by a similar rise in profitability. Profit before tax as a percentage of sales dropped from 15.7 per cent in 1981 to 6.1 per cent in 1990-91. The company says this is in part because defence sales as a proportion of turnover also dropped from 65 per cent at the beginning of the 1980s.

Mr Modak says that "obviously defence is the most profitable" part of the business. He says orders are hard to obtain but margins are better and sales less volatile than in the civilian sector.

Another legacy of the past for a public sector company that finds great difficulty in shedding labour is that the age of the work force is high. At Bangalore — the oldest and largest plant in the group — the average age of the 12,000 employees is over 40.

Mr Modak wants defence to remain BEL's biggest market, accounting for 50 per cent of its business. He says this is the government's intention — which means that as a defence contractor it would not be eligible for privatisation. Many bankers believe, however, that BEL is one of the companies in which the public could be offered a minority stake.

Mr Modak wants to regroup BEL into divisions that would reflect its main business interests. Though he does not admit publicly to the possibility of the state's equity capital being diluted, he is enthusiastic for BEL to be involved in new joint venture subsidiaries with

'The challenges ahead are technological rather than financial or organisational'

foreign companies. His biggest proviso is that such ventures should have advantages for BEL in backward integration. Among areas he would like to expand in are IC (integrated circuit) manufacture and medical equipment.

Currently BEL's exports are small — only Rs530m. But Mr Modak sees the need to

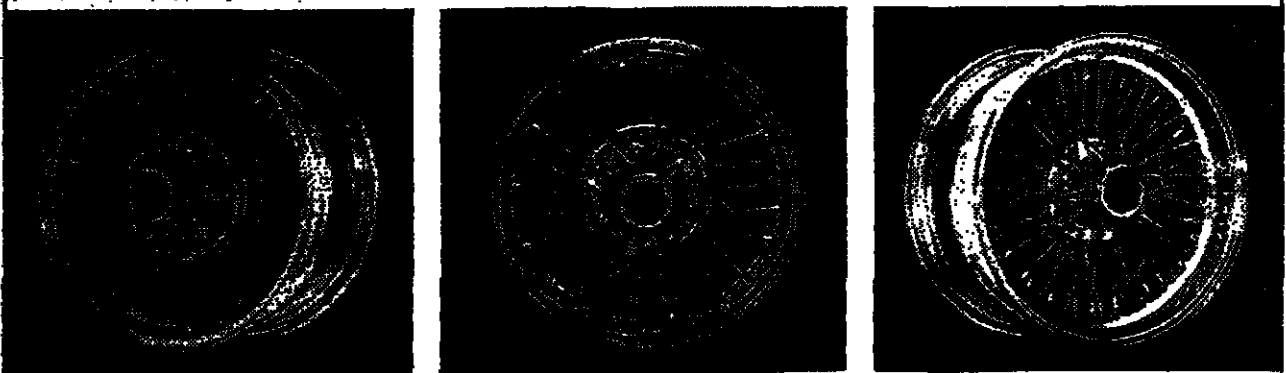
increase them, if only because under the new system of exim scrips (instrument linking availability of imports to exports) the import of components will be closely tied to what the group exports. Mr Modak says he would like to see BEL doing more component and sub-assembly manufacture for foreign defence producers, thus taking advantage of India's lower labour costs.

The group recently signed a joint venture to produce image intensifiers for Oldefit. Mr Modak has spent much of his career at BEL in research and development work. He sees the challenges ahead as more technological than financial or organisational. To any defence electronics group, the Gulf war provided a jolt as to the possibilities of precision guided weapons. Mr Modak plans to expand R&D work.

With the foreign exchange squeeze likely to limit purchases by the Indian defence forces of foreign equipment, he sees increased opportunities for BEL as a domestic supplier if it can develop the right products.

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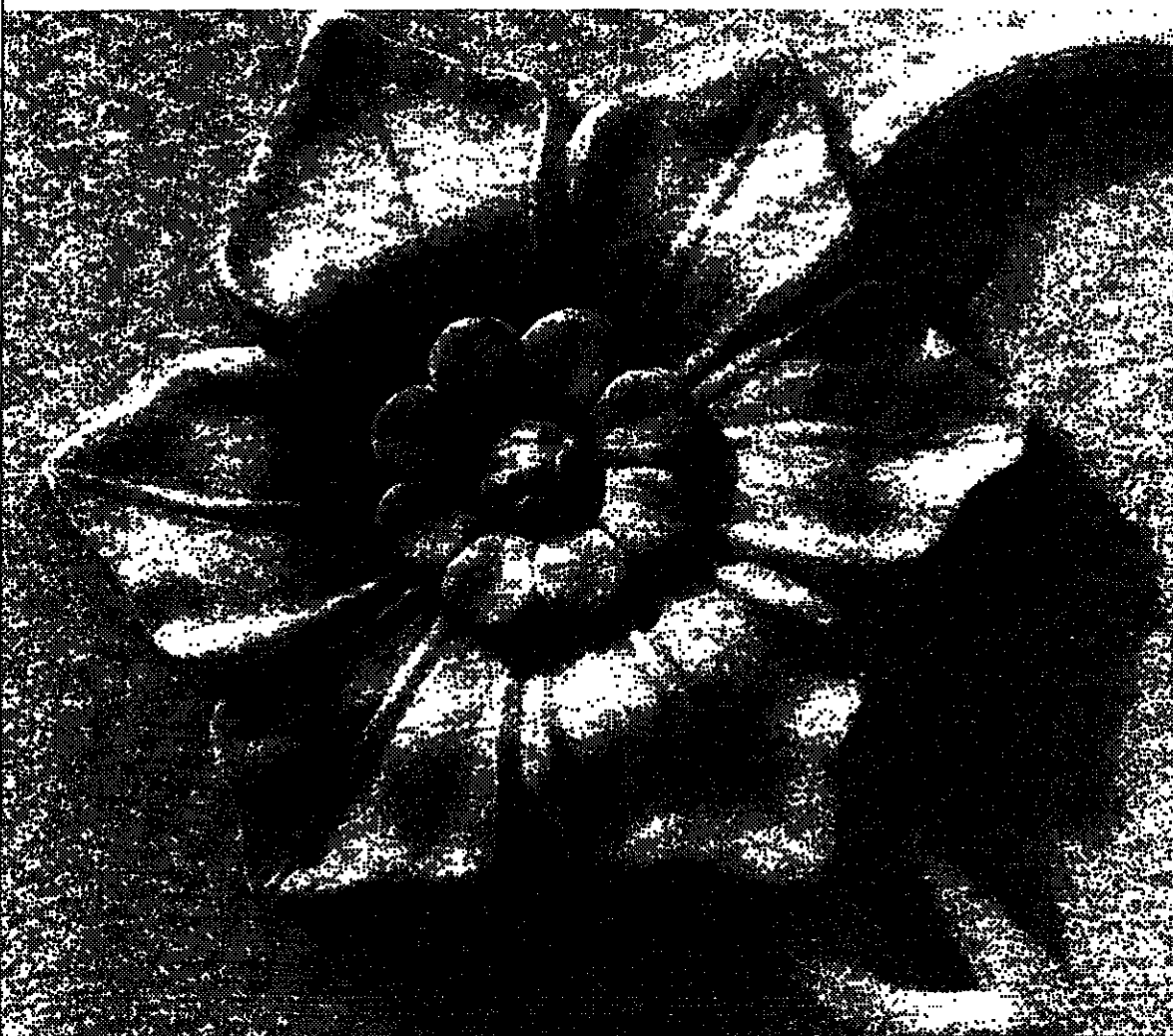
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INDIA 8

The yawning gap between supply and demand is getting bigger

Power generation a thorn in the side of industrial growth

EVERY night, the harsh light from dull orange flames plays eerily over the inky waters of the Indian ocean. Burning just off Bombay's shore-line, the fierce fire is easily visible from the Gateway of India, a prominent landmark. The blaze is actually 8.33 million cubic meters (mcm) of gas being flared daily by the oil and natural gas corporation (ONGC).

While tourists stop to gaze at the awesome sight, executives of power companies rail at the wanton waste of a scarce natural resource. This flame has been burning since 1978. In total India flares almost 17mcm daily. "I could have used this gas to solve Bombay's chronic power shortage," says Mr P Abraham, who recently resigned as the chairman of the Maharashtra State Electricity Board (MSEB).

According to MSEB's estimates, it can erect a gas-based power plant within eight months and write off the investment within two years. Instead of letting MSEB do that, however, bureaucrats squabble over what to do with the precious gas and how it should be divided between energy, petrochemicals and fertilisers.

Unfortunately, such spendthrift apathy is not restricted to the department of petroleum alone. It prevails particularly in the State Electricity Boards (SEBs) which control 83 per cent of India's power generation. As of March last year, 13 out of the 17 functioning SEBs had run up losses of over Rs47,85bn.

This shows up in India's average plant load factor, which was a paltry 53.8 per cent between April 1990 and March 1991. As a result, power has become an infrastructural bottleneck.

According to Mr Kalpana Rai, energy minister, the total generation from thermal, nuclear and hydro power plants during 1990-91 was 264bn units. What Mr Rai's impressive figures hide is the yawning gap between demand and supply, a gap which is widening each year. The power ministry estimates that there is already an average shortfall

of 7.9 per cent, which rises to 17.2 per cent in peak times.

Unless India installs a minimum additional capacity of 110,000mw by the turn of the century, power will become a key retardant factor in industrial growth. Worse, the yawning gap is beginning to frighten some of the more foresighted. "Power is no longer just an economic issue. It's a question of law and order," warns Mr S Rajgopal, power secretary.

Mr Rajgopal's fears are increasingly taking concrete shape. In Calcutta, furious citizens recently beat up workers of CESC, the local power com-

The aggressive group hopes to build two power stations, mostly thermal plants located in Bihar and West Bengal. Collectively that translates into over 1,000mw of new generation and Rs24bn in fresh capital investment.

The Tata group is the second interested group. Through the three Tata electric companies, India's largest business house already operates one of the most efficient power networks in the country. The Bombay-based group is now actively involved in setting up four new power plants, and is bidding for over two others. This could add up to 1,450mw.

Government is galvanised by the grim future but handicapped by empty coffers

pany, after a power breakdown. In the centre of Bombay, India's commercial heartland, the city has teetered on the verge of riots twice in three years after grid collapses which crippled the transport system on which over 3m people depend.

Galvanised by the grim future but handicapped by empty coffers, in June last year, the V P Singh administration invited the private sector to generate and distribute power. In July this year, Mr Narasimha Rao's Congress government went a step further by inviting foreign companies to build power plants in India, either alone or in partnership with Indian firms.

Although the initial response was enthusiastic, interest quickly waned leaving just two important business houses seriously including power in their long-term planning.

"We have identified power as one of two thrust areas for the 1990s," says Mr Harsh Goeke, chairman of RPG Enterprises, India's fourth largest business house. Over the past five years, the highly diversified group has quietly acquired and promoted six companies through which it now controls almost every sector of the industry from generation to distribution, and transmission towers to cables.

Even their fervour for power may fade away because of legislative apathy. Some 15 months and three prime ministers later, the archaic Electricity (Supply) Act of 1948 has still not been amended despite open support by almost all lobbies. On September 9 the much delayed bill was introduced in parliament, but with just two working days left before this session is over the issue may be carried on into the winter session.

Other groups, such as the Birlas, the Ambanis and Videocon who have shown interest in the new policy, are more concerned with improving the quality of energy near their manufacturing facilities than getting into the power business per se.

In any case, the private sector does not have the financial muscle to build plants bigger than 500mw. And if there are too many small power stations dotted across the country, they will become stumbling blocks in creating a cost-effective national transmission network. Meanwhile, things are unlikely to improve unless two big problem areas are tackled effectively: subsidies to farmers and pilferage.

In some states, farmers get free electricity. In Andhra Pradesh they pay just Rs5 per month. In all states, they pay

rates far below urban ones. Massive subsidies to agriculture are the cause of heavy SEB losses. Agriculture's share in total energy consumption is about 25 per cent.

Earlier during the year, at an energy conference called by the prime minister for all the state chief ministers, the power ministry bluntly asked that "the burden of subsidy should be shouldered by the state government rather than the SEBs". It was a harassed reaction to curb the tendency of chief ministers of promising free electricity to farmers the moment elections are announced.

The SEBs are almost equally badly hit by pilferage. The theft of power is escalating to intolerable levels. For example, a recent inquiry conducted by the MSEB revealed that some MSEB officials had colluded with a factory owner to under-bill him by Rs500m. Such incidents are increasingly becoming common.

Experts suspect that nearly 25bn units are stolen annually. This figure is based on national transmission and distribution (T&D) losses, which in the case of SEBs have climbed from 13 per cent in 1981 to 23 per cent in 1990. According to the centre for monitoring Indian economy, as much as 11 per cent of this is not T&D losses at all but illegal tapping.

Unless this phenomenon is effectively checked, policies to increase generation will remain a mockery. At the same time, it is clear that load-shedding the problem on to the private sector will not add substantially to capacity.

What is needed is that the government action. The first step should be to improve the working of existing facilities. If the average plant load factor increases by just one per cent, 500mw of electricity can be generated without spending one extra rupee. Until politicians and civil servants summon up their courage to act immediately, Indians will simply have to get used to dark days and idle factories.

Gita Piramal

Workers fear changes mean job losses, writes Alexander Nicoll

Unions remain sceptical

PROBABLY more than any other sector of the economy, India's large, unionised labour force is likely to feel the winds of change blowing as the result of the liberalisation efforts of the government of prime minister Mr P V Narasimha Rao.

Because India has a mass of non-organised agricultural workers, unionised labour accounts for only about 8 per cent of the overall workforce. However, it is powerful and vocal. Many officials, bankers and industrialists believe that the unions, if they so chose, could block the government's efforts to free up the economy. It is difficult to escape the conclusion that whole-hearted efforts to streamline bureaucracy and make companies more efficient and competitive - especially if they involved privatisation - would result in considerable parring of manpower.

The government is at present making strenuous efforts to play down the likely effects. And unions, for their part, are adopting a cautious approach. The new industrial policy has therefore, so far, produced little overt conflict. But a lot will depend on how the dialogue proceeds over the coming months.

Until this year, the unions have found themselves in tune with the philosophy, if not always with the execution, of government policy since independence. There has been

strong emphasis on the role of government and the public sector in meeting social needs, providing employment and subsistence for India's masses, and rejecting foreign imperialism and stressing the need for the country to be self-sufficient.

The need to avoid sacking people has resulted in many unviable industrial concerns being kept in operation. Unions have blocked any significant computerisation in the vast nationalised banks, with the result that most information is still on paper, preventing proper centralised control of bank operations and perpetuating poor service and massive over-staffing. Public sector employees receive a "dearness allowance" to compensate them for inflation.

The result has been an uncompetitive economy and an unsustainable budget deficit. Dr Manmohan Singh, the finance minister who is spearheading the attempt to change the direction of public policy, called together labour leaders last month to explain his measures, provide reassurances about their consequences, and promise full consultation.

While emphasising that both the public and private sectors urgently needed to be made more competitive and cost-effective, he also said the government would ensure that the burden of adjustment did not fall on the working classes. Mr

Singh has specifically ruled out privatisation of banks, thus averting a one-day strike of bank staffs which had been planned for September 6 in anticipation that the government's plans would involve privatisation.

Unions are sceptical, however, about the possibilities for dialogue. Mr Ram Lal Thakur, secretary of the Indian National Trade Union Congress, says: "There has not been consultation for four to five years. The bureaucracy has the upper hand. Ministers call occasional meetings, but they only remember the trade unions when they're in trouble. They want to create the impression of good dialogue when they need it." Nevertheless, he feels the meeting with

that the purpose of production is only to give employment, but employment has to be taken into account. We think the government is not impervious to protests and views. It is amenable to pressure. It is democratically elected and above all a minority government."

Mr George Fernandes, former industry minister under a Janata party government and a leading socialist critic of the government, feels that little serious opposition is being mobilised at present. "I do not believe the unions are in any sort of fighting shape," Mr Fernandes is setting up an action committee and calling together union leaders. He feels in particular that an influx of foreign technology will mean wasting investment which has already been made in Indian industry. But he admits: "At the moment I am truly whistling in the dark."

Public sector employers, meanwhile, are adopting a conciliatory tone. Mr S Venkatesan, governor of the Reserve Bank of India, which oversees the banks, says that in reforming them "we have to improve the work culture of banks, we have to carry the workers and staff members of banks. The human resource component of banking reform is often neglected. It's a very important component. They are a very important segment of banking reform. They have to be trained, they have to be given proper motivation and they have to have a sense of involvement and participation in the whole system."

It is not a question, he says, of redundancies, but of using the existing labour force better and retraining. The Reserve Bank has not allowed banks to expand their staffs for some time. "I do not visualise that as a result of reform there will be a need for getting rid of people."

It is clear, however, that hard decisions will have to be taken. Government and business will both be seeking to maintain dialogue with the unions and to blunt their formidable potential to derail the new policies.

The industrial policy has not uttered one word about generation of new employment

the finance minister was a good beginning and that the union - which as traditionally been aligned with the ruling Congress party - will not adopt a confrontational approach.

This spirit of co-operation may not be taken up by all other unions, however. Mr TNSiddhanta, secretary of All India Trade Union Congress, foresees big reductions in manpower as a result of the new government policies. "The industrial policy has not uttered one word about generation of new employment," he says.

The policy - which opened up private sector companies to the possibility of foreign control - has not taken into account the rise in unemployment, the slowing in employment growth, and the fact that India has the third largest technically qualified labour force in the world, Mr Siddhanta says. "India is not Singapore, Taiwan or even Sri Lanka. Sri Lanka will be drowned in tea if it doesn't export. But we will not be drowned in tea."

He adds: "I am not saying

PROFILE: SEEPZ

New era for export zone

INDIA's first zone of the type set up 15 years ago in Bombay is entering an exciting phase. The trade policy announced in early August and moves for an open economy are expected to give an impetus to exports from the zone.

Devaluation of the rupee by 18 per cent this July will encourage businesses in Santa Cruz Electronics Export Processing Zone (Seepz) to source their raw material needs locally and official permission to sell a quarter of production in the domestic market at half of the import tariff will boost their profitability.

Under the new policy, all maintenance imports into India are to be supported by import entitlements against exports - eximscraps - traded at some 40 per cent premium at present. Lifting the cost of imports. But imports by companies in the export zones do not have these constraints. They are delinked from eximscraps and do not have to

ship with datamatics have set up shop in Seepz to export software, tapping the relatively cheap technical manpower and making use of dedicated satellite.

International software exports last year were Rs300m, well below the country's potential estimated at Rs10m. We have to demonstrate our credibility in software technology," says Mr Premkumar, Seepz development commissioner, referring to lukewarm interest of international firms.

The zone is yet to attract Japanese multinationals, which, up to now, have preferred Malaysia, Thailand, Indonesia and Pacific Rim countries. Seepz has not marketed vigorously, as many Far East countries have done. "The problem is lack of clarity," says Mr Tandon.

At the beginning, the main consideration for entry to Seepz was export earnings, but the focus shifted to employment and technology. Mr Tandon emphasises the need for clear policies and simplified systems in order to attract multi-national companies. "There should be no discretionary powers," he says.

However, the Seepz track record has been good in all spheres except technology transfer. "Our original objectives have been achieved," says Mr Premkumar.

Seepz provides employment for 10,000 people and the value added is 28 per cent on an average against the stipulated minimum of 20 per cent. The Seepz altered the policy of limiting entry to electronics businesses a year ago and is now allowing diamond cutting and polishing companies to set up modern facilities, which are to serve as a model to the Rs50bn local gem and jewellery industry.

This change is seen by analysts as official failure to attract large overseas electronics investment. Gem and jewellery industry accounted for a third of the Rs3.89bn exports from Seepz last year and its share is to jump this year.

The number of diamond polishing firms in the zone is expected to rise to 55 from 12 in a couple of years, changing the character of zone. The change in composition is a result of a shift in the official policy from emphasis on value-added to volume of business. The production cycle of diamond polishing is shorter than electronics firms and exports from Seepz will rise faster than in the past.

R C Murthy

Until recently Seepz was dominated by Indian businesses and did not attract international groups

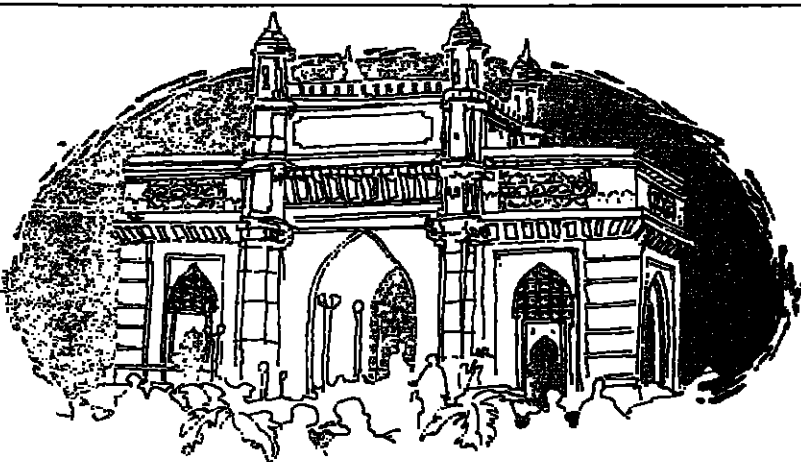
pay the premium. On top, the trade package offers a carrot of eximscraps entitlement up to 30 per cent of value-added for exports from the zone. "There are several good features in the trade policy," says Mr M L Tandon, chairman of Tandon computers conglomerate that accounts for a third of the Rs3.89bn exports from Seepz last year.

Exports from Seepz have more than trebled in three years from Rs1.1bn in 1987-88 (April - March). The growth is projected to slow down this year to Rs4bn. Tandon brothers have flourishing computer business in Silicon Valley on the west coast in the US and have catapulted Seepz to the top by producing computer hardware. A Tandon company in Bombay produces Winchester head stacks for computers assembled in Singapore.

With the recent decision to allow flexibility in production pattern without adding large capital equipment under the new policy of "broadbanding", the Indian government has now recognised the problem of rapid obsolescence, says Mr Tandon. Until now, companies in Seepz could not alter production without official approval.

Seepz was dominated until recently by Indian businesses such as Tandon computers and did not attract international companies. Over the past couple of years this has changed. Multinationals have recognised India's edge in computer software and have been knocking at India's doors.

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INDIA 9

Agricultural concessions are still not filling landowners' pockets

Farmers threaten action

MR Mahendra Singh Tikait, the fiery and charismatic president of the Indian Farmers' Union, squats on the ground in front of his mud-and-brick house in Sisauli village in western Uttar Pradesh. He frowns constantly and grunts replies to questions on the demands of his vast following of landowners in the region.

Surrounded by bodyguards armed with shotguns, Mr Tikait brushes aside the concessions made to farmers by politicians and threatens a national agitation if they are not given a better deal. He scoffs at the government's decision to introduce a two-tier price policy on fertilisers and demands restoration of the full subsidy that has been only partially restored by the finance minister.

Fertiliser prices are topical and controversial because the government first raised them by 40 per cent in last July's budget and then, after severe criticism from within the ruling Congress party and the opposition, announced a two-tier policy that aimed at softening the impact of the subsidy cut.

The policy is to sell fertilisers at a subsidised rate to what are called "small and marginal farmers" (those with holdings of less than two-and-a-half acres) and at the full price for richer farmers. The aim is to save about Rs20bn on fertiliser subsidies but the policy will have to be implemented by the state governments which have declared it impossible to administer.

Mr Tikait is not worried by such academic arguments and insists on farmers' rights to a reasonable income based on cheap inputs such as fertilisers, electricity rates and diesel. His threatened agitation is real for Mr Tikait has shown he is capable of organising an effective farmers' movement (in November, 1989, he organised a week-long sit-in by hundreds of thousands of farmers in front of the Central government's offices in New Delhi).

Mr Tikait cannot be ignored, even though his own following is restricted to the Jat (a farmers' caste) districts of western Uttar Pradesh and Haryana. Indian farmers are largely unorganised. The only other farmers' movement that has



A farmer attends his rice paddy: criticism focuses on withdrawal of the fertiliser subsidy

gained some momentum is that organised by Mr Sharad Joshi, a former World Bank official, who heads his own union in the western state of Maharashtra and voices much the same demands as Mr Tikait.

Farmers' leaders say that they need to be properly organised if they are to improve their lot. Mr Joshi has argued that they cannot get a better deal unless they use pressure tactics on politicians and administrators to improve the terms of trade which, he claims, are heavily in favour of the urban areas.

Yet, as the criticism of the fertiliser policy showed, India's politicians are all too aware of the need to nurture the land-owning and landless farmers who form 80 per cent of population of the country. Each has a vote and hence their political importance.

The government itself insists that much of the current year's budget, in spite of the cuts in fertiliser and other subsidies, aims at providing for the welfare of farmers. Since farmers live in India's villages and most are among the poorest in the country, many of the schemes for rural development are aimed at improving their lot.

Dr Manmohan Singh, the minister of finance, devoted a considerable part of his budget speech to show how the government is committed to the uplift of the weakest and the most vulnerable sections of our society.

The schemes he outlined

include projects such as employment generation, provision of irrigation facilities, improving rural water supply.

Mr Tikait and Mr Joshi consider all this to be hogwash. There is no doubt that farmers have a genuine problem. Even though they have considerably raised the country's agricultural production and food-grain output reached a record 178m tonnes last year, their real incomes have been falling.

This is despite a substantial rise in purchase prices of agricultural products early in September to compensate the farmers for the higher costs of inputs such as fertilisers - and such populist schemes as waiver of loans by the V P Singh government which have raised the fiscal deficit.

The waiver added nearly Rs40bn to the deficit. The movements organised by Mr Tikait and Mr Joshi are no peasants' revolts. Indeed, the mass of Indian peasantry remains unorganised because they are made up by landless labourers who are grossly under-employed and live in conditions of near poverty or are farmers with uneconomic holdings.

The followers of Mr Tikait and Mr Joshi are land-owners cultivating farms which vary from two to 15 acres in size. What angers them is the fact that they have not shared in the gains that the country's undoubted progress in agriculture has made and that farming continues to be unremunerative, in spite of the increase in

production of all crops.

One official study has shown that at present farmers owning up to seven acres have "negative household savings" while those with 25 acres have incomes equal to clerks in government offices. Only the top 10 per cent of farmers owning more than 35 acres have sizeable per capita incomes.

The government faces big problems in improving farmers' incomes since it is under pressure to cut subsidies on agricultural inputs in an attempt to cut the fiscal deficit. Dr Singh has already carried out his promise to raise the minimum support prices at which official agencies buy farm products, but this is at the cost of further fueling the strong inflationary pressures that are already evident.

As the criticism of the withdrawal of the fertiliser subsidy shows, politicians and the farmers on whose vote they depend could block the government from fully carrying out fiscal reforms. In any case, Mr Tikait is not impressed by the government's case for reforms since he points to the growing economic disparities between the urban and rural sectors.

"We are totally disillusioned by the treatment meted out to farmers," says Mr Tikait. Having repeatedly demonstrated his ability to create turmoil, his threat to give New Delhi another taste of the farmers' power has to be taken seriously.

K K Sharma

THE Marxists have been in power in West Bengal since 1977. But in Mr Jyoti Basu they have a chief minister who has the pragmatism to welcome working with the private sector and foreign multinationals.

His personally good relations with the business community have not been sufficient to attract much investment to the state over the past 14 years. Mr Basu blames this on the hostile approach of Congress governments in New Delhi. He says that both Mrs Indira Gandhi and her son Mr Rajiv Gandhi used the system of industrial licensing to divert private sector investment away from West Bengal.

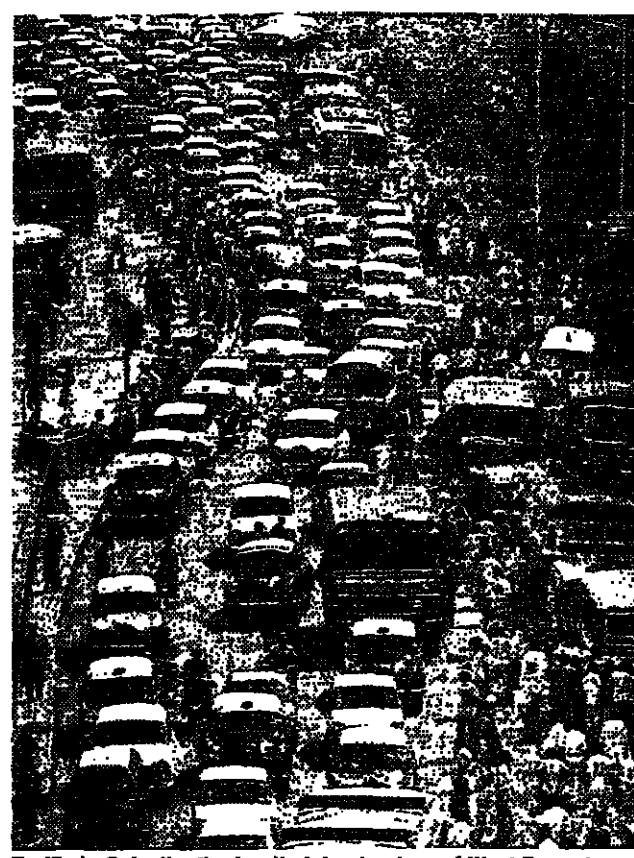
On top of this, since the Marxist accession power, the only new central project to be located in the state is the low temperature carbonisation plant involving an investment of Rs136 bn.

The Marxists have clashed with Congress governments in New Delhi over a number of issues. They wanted a thorough overhaul of central-state relations, much to the distaste of New Delhi. They asked the states to be given greater powers in raising their own taxes and for more funds to be transferred to them from the central government.

Both Indira and Rajiv Gandhi realised that the Marxists enjoying popular support in the rural areas - where nearly 75 per cent of West Bengal's almost 60m people - live could not be dislodged from power by the state Congress party which was ridden with dissent. The Marxists contend that since they could not be defeated in elections, New Delhi hoped to keep them on a tight leash by denying them industrial investment.

The scenario now is altogether different. Following delicensing, which released business houses from their obligation to turn to New Delhi for guidance, the states will have to compete among themselves for private sector investment. Mr Basu is aware of the fundamental changes that have taken place. "There is going to be competition among states. In the new competitive environment we must survive and prosper," he said.

Politics of the past apart, the rather fragile infrastructure - power, telecommunication and roads - of West Bengal did put off many potential investors. For example, while demand for power has been growing by more than 100MW a year, there has been a zero growth in power capacity for nearly four years since 1986. It was only in



Traffic in Calcutta: the fragile infrastructure of West Bengal has put off many potential investors

WEST BENGAL

Marxist state has pragmatic business view

1990-91 that new capacity of 277.5MW was brought on stream. Mr Basu admits that "there is of course significant need for an adequate and efficient infrastructure".

Mr Sanjiv Goenka, president of the Indian Chamber of Commerce and vice chairman of the Rs21bn turnover RPG Group, is optimistic about the prospects for West Bengal. He says: "West Bengal today provides a very secure and peaceful climate for commerce and industry. There is an air of expectancy all around with a government at Writers Building (as the state secretariat is called) which understands its people and enjoys their support."

Mr Goenka knows West Ben-

galism of the 70s took a heavy toll on the state. There was a flight of capital. The success of the Marxists in the 1977 elections further complicated the situation.

The Marxists then did not inspire confidence among the business community. According to Mr Basu, the flight of capital from West Bengal has not altogether stopped. But he does not object as long as the local business houses "invest a good portion of their profits in the state".

The C K Birla group and the Mukand group have shown interest in setting up 3m tonne capacity steel plants. The Tatas along with Korf of Germany are setting up a pig iron plant at Kharagpur. The S K Birla group has just finished a polypropylene film project.

What could also stand West Bengal in good stead is that a large number of multinational affiliates are headquartered in Calcutta. Dr Abhijit Sen, president of the Bengal Chamber, believes that now that foreign companies can acquire a majority holding in Indian ventures, Calcutta based foreign affiliates might expand their business.

Some Marxist colleagues of Mr Basu feel that he goes too far in befriending businessmen. Mr Basu's reply to any such remarks is: "I can't let West Bengal turn into a desert."

He is anxious to draw the private sector into building new power plants. He asks: "Where do I have the money to build new plants? I have invited the Tatas to set up a 1000MW power unit in my state. But I don't think it is necessary to sell off the power units in the government sector [to private industry]," he says.

Mr Basu's words of welcome to the private sector are in sharp contrast to the reception it gets from the state bureaucracy. In spite of the relaxation of licensing by the central government, new investment proposals will still have to clear to obtain clearances from the state government.

Unless the state bureaucracy is responsive to the needs of business and industry, the new found enthusiasm about West Bengal will peter out. Much will also depend on how aggressively the West Bengal Industrial Developmental Corporation, a state agency, markets the state among the entrepreneurs outside West Bengal.

Kunal Bose
Calcutta

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INDIA 10

Measures focus on stability and deregulation

Rao reforms attack Indian protectionism

THE government of prime minister Mr P V Narasimha Rao initiated a series of reforms in July to stabilise the economy and deregulate trade and industry. These include:

● **Currency:** The rupee was devalued in two stages on July 1 and 3 against the major currencies by just under 20 per cent. Since then, the rupee has been allowed to depreciate further so that \$1 is equal to Rs45.90.

● **Budget:** Dr Manmohan Singh, the minister of finance, said this aimed at reducing the fiscal deficit from 9 per cent of gross domestic product to 6.5 per cent.

As a result, current expenditure in 1991-92 is being cut by 4.9 per cent in real terms to Rs1,141,036n. The cuts in expenditure include those on subsidies, particularly fertilisers, export and sugar, which are reduced by Rs27,96n. Defence expenditure, at Rs163n shows a fall of about 8 per cent in real terms over the previous year.

Since the budget was presented, the International Monetary Fund has asked for a cut of another 5 per cent in government expenditure to compensate for the partial restoration of the fertiliser subsidy amounting to Rs8n and its belief that the government had over-estimated its revenues from customs duties by Rs10n.

The budget raised income tax on companies by 5 per cent while continuing the surcharge of 15 per cent.

● **Foreign trade:** Several changes aim at eliminating a substantial volume of import licensing and strengthening export incentives. Under a new requirement, imports by companies have been linked to their export performance. This has been achieved by a new instrument called "eximscrip" which enables companies to make imports at the rate of 30 per cent of the value of their exports.

Eximscrips are freely tradable. Imports of capital goods

for new ventures can be made freely up to a value of Rs20m.

Items reserved for import and export by government-owned trading houses have been reduced. The matter will be reviewed next March to reduce the number further.

● **Industrial policy:** Industrial licensing has been abolished for all industries except those related to security and strategic concerns.

The Monopolies and Restrictive Trade Practices (MRTP) Act is to be restructured. The government's approval will no longer be required for expansion of existing units and for setting up new ones by companies with assets of over Rs10n.

● **Foreign investment:** Approval will be given automatically for direct foreign equity investment up to 51 per cent for 34 categories of industries. The foreign equity should cover the foreign exchange needed for imported capital goods.

A special empowered board has been formed to negotiate with large foreign companies who wish to make long term investments in India covering several projects. Equity participation up to 100 per cent will be allowed in certain cases.

Payment of dividends will be monitored by the Reserve Bank to ensure that outflows on foreign exchange on this count are balanced by export earnings over a period of time.

Automatic permission will be given for foreign technology agreements in "high priority industries" involving a maximum lump sum payment of Rs10m. Royalties of 5 per cent for domestic sales and 8 per cent for exports, subject to total payments of eight per cent of sales over a 10-year period, will be allowed.

● **Public sector:** The government has announced its intention to partially privatise selected public sector units by offering up to 20 per cent of their equity to investment institutions and to workers in the concerns.

Government-owned industries are to be given more

autonomy. Further reforms involve cuts in the public sector labour force through closure of some companies. The only detail the government has given so far of its "exit" policy is that a fund is to be set up jointly by the government, private companies, public sector units and state governments for workers to be offered early retirement.

Investments by the government in industry will be limited mainly to areas of strategic importance, high technology and essential infrastructure. However, the private sector will not be barred from some of these.

● **Interest rates:** The minimum lending rate for top quality commercial borrowers has been fixed at 13.5 per cent and greater flexibility on fixing interest rates has been allowed to banks and financial institutions.

The government is committed in principle to further reforms. These include:

● **Foreign trade:** Dr Manmohan Singh, the finance minister told the *Financial Times* that he would announce a timetable for tariff cuts in the next budget to be presented to parliament in February, 1992. India has an average weighted tariff of about 112 per cent, among the highest in the world.

● **Taxation:** As tariffs account for 50 per cent of the government's revenues, losses from cuts will have to be made up by raising direct taxes and excise duties. A reform of India's complicated direct and indirect taxation structure is overdue.

● **Financial sector:** A committee has been set up and is to submit its report in mid-November. This will consider issues such as increased use of market mechanisms in allocating credit, recapitalisation of the nationalised banks and giving the banks greater autonomy.

K K Sharma

ON the day after Mr Kalyan Singh was sworn in as chief minister of Uttar Pradesh in June, he took his entire cabinet of 19 ministers to Ayodhya, a town some 70 miles east of the state capital, Lucknow. In a gesture which offended and alarmed local Moslems, they vowed that they would build a temple there to Lord Ram, a Hindu deity.

The Ayodhya issue had been the focus of the national election campaign of Mr Singh's party, the Bharatiya Janata Party, which has won over many voters with its Hindu revivalist line.

The temple is controversial because it would be built on the site of a mosque which, although disused, is still treated as sacred by Moslems, who number some 100m or 12 per cent of India's population. Hindus allege that the mosque was built in the 18th century on the site of a destroyed temple.

The BJP did not capture the Delhi parliament, but it did win for the first time in Uttar Pradesh, India's most populous state with 138m people. Mr Singh thus became the BJP's most senior elected official yet. Although the party has previously run some of India's smaller states, its tenure in Uttar Pradesh will be seen as a key test of its ability to govern the country.

Mr Singh has impeccable credentials as an opposition politician and must now translate them into his position as head of government.

Born in 1933 of a farming family in Aligarh district, he made his name as a powerful speaker and champion of rural communities when being elected seven times to the state's legislative assembly. He has been jailed seven times for political activities, including a 20-month detention under emergency rule.

He kept the Ayodhya issue in the limelight in state politics. Only a year ago, while leader of the BJP opposition in the legislative assembly, he was detained for six weeks under the National Security Act after agitation over Ayodhya.

The BJP's support is a mix of religious hardliners and middle class Hindus, particularly in the business community, who feel attracted by the idea of a Hindu state and by BJP tenets such as "justice for all, appeasement for none" which refer to concessions made to Muslim laws.

They are also disillusioned with the Congress party which has been ruling India for most



Police guard the mosque at Ayodhya, centre of religious controversy: Singh kept the issue in the political limelight

PROFILE: KALYAN SINGH

Hindu champion confident

of the years since independence, and by corruption in the government. The BJP's rise threatens the concept of a secular state.

The BJP takes a moderate line on economic matters - it probably has little quarrel with the economic liberalisation measures now being introduced by the government - and therefore depends on whipping up the religious fundamentalist line in order to win further support nationally.

It is thus caught somewhat in a trap: to appear credible as a governing party, it must appear sober and responsible, but it must also carry forward the momentum of the Ayodhya issue upon which it has staked itself.

If Mr Singh is aware of this awkwardness, his determined manner betrays no sign of it. "At the election we got a mandate from the people to get the temple built. My government will remove all hindrances," he



Kalyan Singh: the BJP's most senior elected official yet

said. "It is a national issue. It is a symbol of our national pride... and a symbol of our national independence." Moves to begin construction without immediate demolition of the mosque are under way in Ayodhya. Meanwhile, however, Mr Singh's government finds itself

financially strapped and at the mercy of the government in Delhi. It is the first time that the ruling party in Lucknow has been different from that in Delhi, and the chief minister finds himself seeking an emergency loan of Rs7.9n from the central government to meet an inherited budgetary emergency.

Mr Singh has been forced to enact unpopular austerity measures to cut the state government's spending, and is also concerned about the local effects of the Delhi government's economic measures, such as rising fertiliser prices - although he will not comment on whether he feels the measures are justified. He is keen that Uttar Pradesh should attract foreign investment under the liberalised approach from Delhi.

A clearer picture of the BJP's approach to government will appear over the coming months, with the Ayodhya

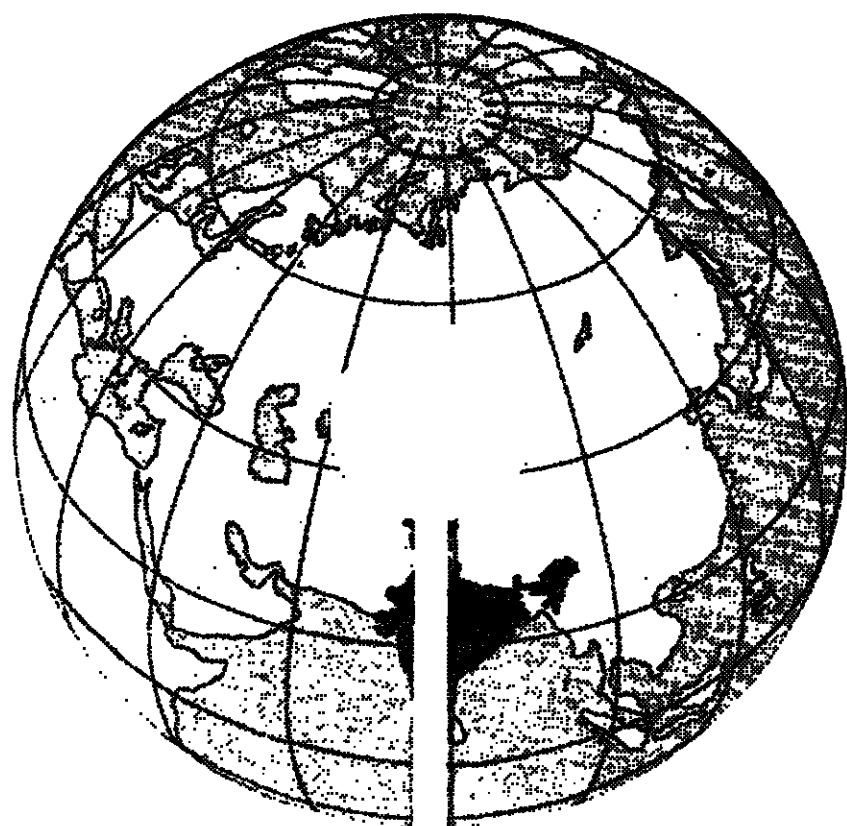
issue likely to become more heated, despite the fervent desires of the state's powerful top civil servants that it should be settled locally by the communities at Ayodhya itself - and as the BJP administration evolves its own budgetary and economic policies.

For Mr Singh, the way ahead is clear as he contemplates the minority government in Delhi. He says that BJP support for the Congress government - so far it has essentially backed the economic reform programme - will not be unconditional.

"We will support or oppose depending on the merits and demerits of central government," he says. But he clearly has few doubts as to the outcome of the next general election. "The prospects for Delhi are quite bright and the way to Delhi passes through Uttar Pradesh."

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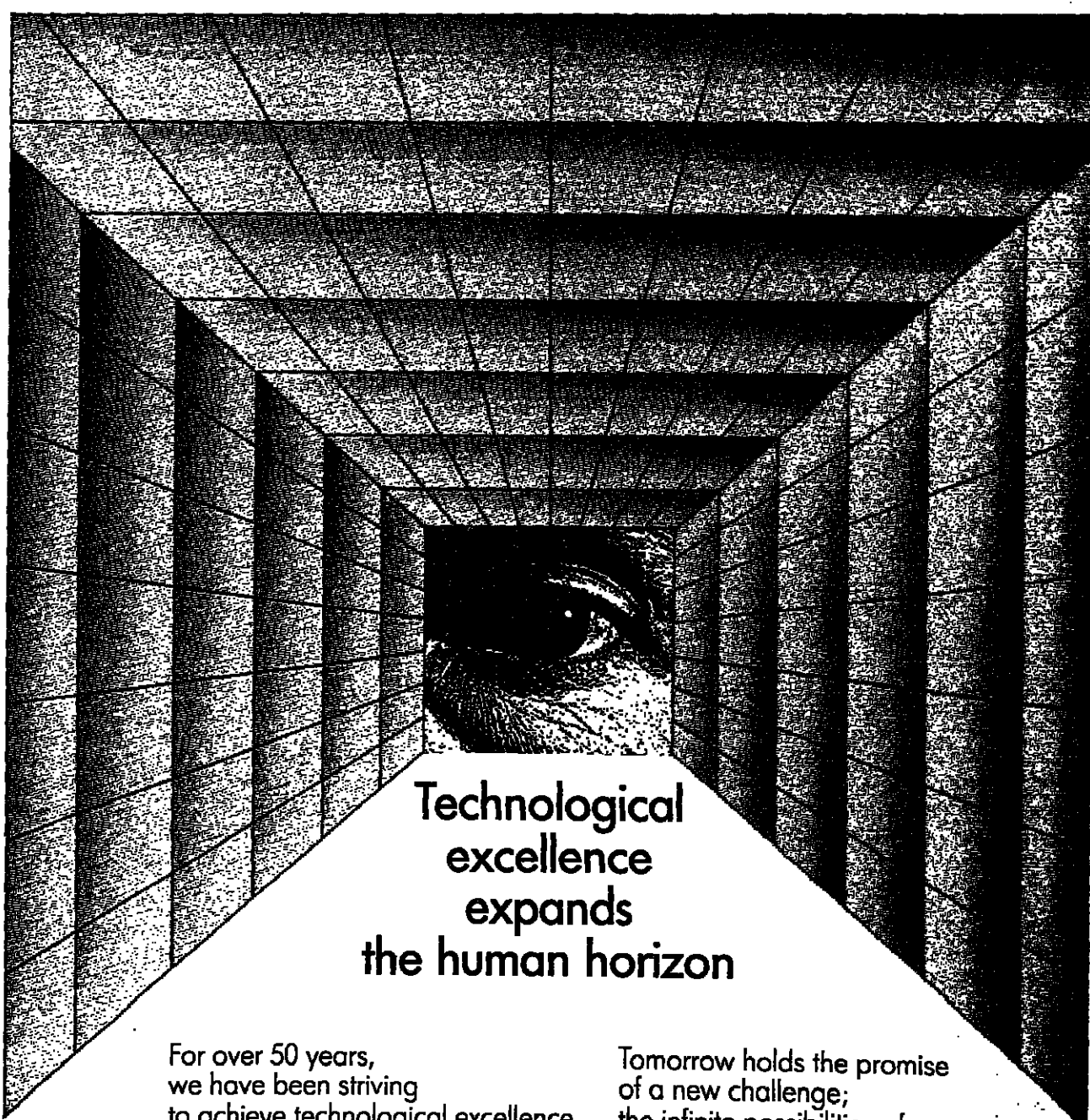
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WALES

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■ Financial services: the big names find a second home Page 3

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SECTION IV



Structural changes to the economy since the downturn of the early 1980s have led to a more resilient

industrial base that is now being tested by the recession. Yet Wales has attracted more than its share of investment projects in growth sectors, writes Anthony Moreton

Catching the big fish

A RELATIVELY little-noticed paragraph in the papers in the middle of last month could be a signal of profound changes in the fortunes of Wales over the next decade.

The item said that Matthew Epstein, a 43-year-old from New York, was to become the next director of the Welsh National Opera Company. Without disrespect to him, it is doubtful if, outside the confines of the world of music, Mr Epstein's is a name that commands immediate recognition. Not for him to jostle on the plinth alongside Beattie Paul McCartney or media mogul Rupert Murdoch.

Within music, it is a different matter. Mr Epstein has been artistic consultant to the San Francisco Opera, the Chicago house and to Carnegie Hall; for nearly 20 years he has been with Columbia Artists Management.

In the Big Apple he is a very big fish indeed — and he has just arrived in Wales. That a man of his stature at the height of his artistic powers should have chosen to come to Wales reflects the standing the country has in the world of music.

Unfortunately, that perception of the principality as a

place to be is not widely held outside that sphere. And that is one of the most important problems Wales now faces.

Too many people in the rest of Britain, perhaps most of them, believe Wales is still a place where coal remains king and steel mills belch forth their dirty emissions as they did 80 years ago, let alone 100.

Mr David Waterstone, a Scot who spent seven years in Cardiff as chief executive of the Welsh Development Agency, used to say that the greatest problem facing Wales today was changing its image. The arrival of Matthew Epstein will contribute just a little towards that.

Outside the arts, Wales has left the era of heavy industry behind it. Coal has all but disappeared, with only four pits left at the end of this year; steel remains a potent force but in a much more modern, less labour-intensive form; copper, lead, zinc and other metal-forming industries have gone completely. In their place have come financial services, electronics, food processing, pharmaceuticals and merchant banking. High stack has been replaced by high tech.

The message of the changing



High stack has been replaced by high tech: biomedical research at Amersham International's Cardiff laboratories

face of Wales will be thrust home to an international audience this autumn when Dr Gwyn Jones, chairman of the Welsh Development Agency, travels to Japan and the Pacific Basin with Professor Eric Ash, rector of London University's Imperial College of Science and Technology, to launch Imperial Park, a joint venture between the two organisations to set up a science park at Newport.

The science park is part of a giant £250m development, Celtic Lakes, being undertaken by building group Frencherwood Commercial and a local concern, Bassaleg, to create the largest business park on the western side of Britain. The 170-acre development, on land originally earmarked for Toyota's motor plant and larger than Bristol's Aztec West, is expected to lead to the creation of 8,000 jobs by the turn of the century. This development is seen as a suitable

gateway to the new Wales. Dr Jones sees collaboration between the WDA and Imperial College as setting the groundwork for the emergence of a Silicon Valley in Britain.

"America's great lead in this area came through universities, industry and the community acting together," he says. "We want to do the same thing in Wales and our association with Imperial College, one of the world's leading science institutions, gives us that opportunity."

"Foreigners have fewer hang-ups than Britons in coming to Wales. They do not see it as a dark, nasty place but as somewhere with its own culture and identity."

In cultural terms, too, Wales is changing. Welsh culture has always been stronger than in any other part of the UK because of the strength of the Welsh language. About 18 per cent of the people still speak it and in many parts it is impos-

sible not to hear it. The Welsh Language Board, set up to establish a future framework for the language, has presented proposals for a new language bill which would put Welsh on an equal footing administratively with English.

Mr John Elfed Jones, the board's chairman, who is also chairman of the controversial Welsh Water, says that the previous Act in 1967 did not give equal validity to the two languages but that the time has come for a change. "The people of Wales still cannot live, cannot marry, cannot die in Welsh," he says. "We want equal validity and status for Welsh."

"Legislative and executive obstacles to its use should be ended. Provision for a greater use of the language in the public sector is necessary and a statutory body should be set up to care for its interests."

With the exception of the CBL, which says it would add

to costs, the Jones doctrine has considerable force within Wales and it would appear the government is not unsympathetic towards its general thrust. But elsewhere, traditions remain unchanged.

Politically, Wales remains a bastion for the Labour party. Three of the party's six leaders since 1945 have represented Welsh constituencies. With a general election approaching, it is unlikely that Labour's enormous strength in the country will be eroded.

The attempt by the Conservatives to confine Labour to its heartlands in the industrial valleys seems to have failed.

Riding the crest of early Thatcherism, the Tories captured a third of the principality's 38 seats in 1983; since then, it has been downhill at an accelerating pace and there is little time to stage a recovery. Labour has the young MPs of cabinet material: it has the more efficient organisation.

That will take some overturning.

Mr Peter Walker, the previous Welsh secretary, used to talk about bringing unemployment levels in the depressed valleys of south Wales down to those in the south-east of England when he launched an initiative to rejuvenate the area three years ago.

His pump-priming and personal involvement achieved a lot and the quality of life undoubtedly continues to improve.

In regional terms, though, as Mr Dennis Thomas, of University College of Wales, Aberystwyth, points out, Wales is bottom of the pile in many areas and has actually been going backwards rather than forwards. More men earn under £130 a week than in any other part of Britain; gross domestic product per head is lower than elsewhere as is personal income and personal disposable income per head.

Whereas men earned 85.7 per cent of the British average in 1980, the figure had dropped to 87.5 per cent a decade later. Among women the drop was not quite so severe, perhaps reflecting the way in which it has become easier for a woman to find work, with so much of it in the 1980s becoming part-time.

Another academic, Dr Kevin Morgan of University College, Cardiff, believes that Wales could learn from the more advanced regions of Europe, especially Baden-Württemberg, the German Land (or province) whose capital, Stuttgart, is twinned with Cardiff. It is important with the European open market fast approaching that policy-makers in Wales "recognise that new geo-political alliances are being established in Europe below the level of nation-states."

Wales is not ignoring these moves. It has forged close links with Baden-Württemberg as well as with Catalonia in Spain, Rhone-Alpes in France and Livorno in Italy. Perhaps those links are, imperceptibly, paying dividends.

This year's Cardiff Festival of Music, which opened on Saturday night has a Czech theme. Internationalism is in the air. New York's Matthew Epstein should feel quite at home.

IN THIS SURVEY

- The economy: not all the news is so "wonderful"
- MAP, KEY FACTS Page 2



(Above) David Hunt, the Welsh Secretary

- Politics: hard climb for the Tories
- Inward investment: slayers and subsidy seekers Page 4

- Agriculture: turmoil over EC plans
- Water and electricity: utilities at war Page 5

- North Wales: A55 - the road to opportunity



(Above) Deeside business park now boasts a four-star hotel

- Liberated ports: working hard to capture trade Page 6

- River barrage schemes: three run gauntlet of objections
- Property: towns that are defying the recession
- Swansea Bay: "manufacturing creates more jobs" Page 7

- Techniquet: object lesson in Cardiff
- Garden festival: new image for Ebbw Vale Page 8

Editorial Production: Gabriel Ewerman

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WALES 2

The economic recession is different from that of the early 1980s, writes Anthony Moreton

Not all the news is so 'wonderful'

JUST AS most people were thinking about their summer holidays at the start of last month, Mr David Hunt, the Welsh Secretary, pulled a big investment rabbit out of his hat.

Trico, one of the world's leaders in the manufacture of windscreen wipers for cars and lorries, was to close its factory in West London and move to a site at Pontypool in Gwent, creating another 540 jobs in Wales.

Mr Hunt has been regularly dipping his hand into the hat and bringing out goodies this year. On a single day in July he unveiled 14 industrial projects involving an investment of £33m. They ranged from Fibrex investing £1m at Wrexham to expand its rubber-moulding plant, creating 33 jobs, to Peer investing £0.7m in setting up an office furniture factory at Blaenavon, creating 48 jobs. "Wonderful news," he called the package which came just before official statistics showed unemployment

ment going up again to a seasonally adjusted 9.1 per cent as vacancies notified to Jobcentres fell.

Not all the redundancies which have led to the rise in unemployment are recession-related. The decision of Thorn Electric to shut its Merthyr Tydfil plant, where it has over 500 workers, arose through changes in the lighting industry rather than a drop in consumer demand, and Hoover's laying off of more than 400, also in Merthyr, was an attempt by management to win back control of its functions against a militant engineering union.

The seeming paradox of Wales is that it continues to attract newcomers in encouraging numbers at the same time that it lays off workers in even larger numbers. There is no doubt that the recession, which reached Wales about a year ago, rather than in the rest of the UK, is still affecting the economy. It is a different recession, though, from that at the start of the

1980s. That was a structural upheaval; this time, it is consumer dominated.

"Ten years ago the narrowly-based Welsh economy was hit more severely than elsewhere in Britain as the traditional industries collapsed," says Dr Gwyn Jones, chairman of the Welsh Development Agency. "This time a broader-based economy is more resilient and Wales is coming through the downturn better than many other UK regions."

Mr Dennis Thomas, lecturer in economics at the University College of Wales in Aberystwyth, believes evidence of resilience has to be treated with caution. "Some parts of the country have done extremely well, based on the inflow of investment, especially around Cardiff in the south-east and Wrexham in the north-east. But large areas of Wales have still to benefit and prosperity has been unevenly distributed."

"Some forecasters who were optimistic about Welsh prospects in the 1980s have begun to have doubts. Their view that Wales would emerge better placed than in the mid-1980s, and also better placed than other regions of Britain, are beginning to be questioned. The recession has bitten deeper than expected."

Such caution is sensible as only the most tentative signs exist that the economy is pulling out of the recession. The latest CBI quarterly industrial trends survey for Wales, published at the end of July, warned that recent interest rate cuts had "not yet brought the boost in optimism that companies need to ensure a sustained economic recovery".

It went on to add that the report was the 10th successive quarterly survey to show a weakening of business confidence. Its one note of optimism was that "the decline has slowed since its worst point at the start of the year".

The government's index of industrial production and construction in Wales indicates much the same state of affairs. First quarter 1991 figures, the latest available, showed a fur-



Gwyn Jones: "Wales is coming through the downturn better than many other UK regions"

UK GROSS WEEKLY EARNINGS*

	Manual Males	Non-Manual Males	All Males	Manual Females	Non-Manual Females	All Females
South-East	£255.3	£404.0	£344.4	£164.9	£244.6	£232.5
East Anglia	£237.2	£333.9	£281.1	£141.9	£198.3	£185.6
South-West	£227.0	£326.6	£277.3	£141.5	£199.5	£186.2
West Midlands	£229.4	£322.3	£290.8	£143.1	£195.0	£181.1
East Midlands	£231.6	£322.8	£299.7	£140.1	£198.9	£181.6
York & Humberside	£230.7	£316.8	£266.9	£140.8	£193.5	£181.2
North-West	£233.1	£322.6	£274.7	£143.8	£199.8	£186.9
North	£231.6	£314.5	£265.2	£141.0	£192.5	£180.2
Scotland	£231.7	£327.4	£276.4	£141.2	£200.6	£187.2
Wales	£224.7	£306.2	£258.6	£143.5	£193.0	£180.3
UK	£237.2	£354.9	£295.6	£148.0	£215.5	£201.5

* Full-time employees on adult rates, April 1990

Source: New Earnings Survey, 1990

ther fall compared with the last three months of 1990. The fall was almost imperceptible - 0.1 per cent - raising hopes that the downturn may be bottoming out.

The air of general pessimism was also reflected by Dr David Phillips, director of the Cardiff Chamber of Commerce and Industry, who reported that "trade in both the service and manufacturing sectors in Wales has become even more difficult for most companies. Small firms have been most affected, showing a sharper decline than companies employing over 200 workers."

If Wales is about to come out of recession, as Mr Stuart Lindsay, a partner in the Cardiff office of Touche Ross, believes, there are still dangerous times ahead. "Wales has changed its

nature considerably in the past decade," he says, "and encouraged the growth of self-employment and small firms."

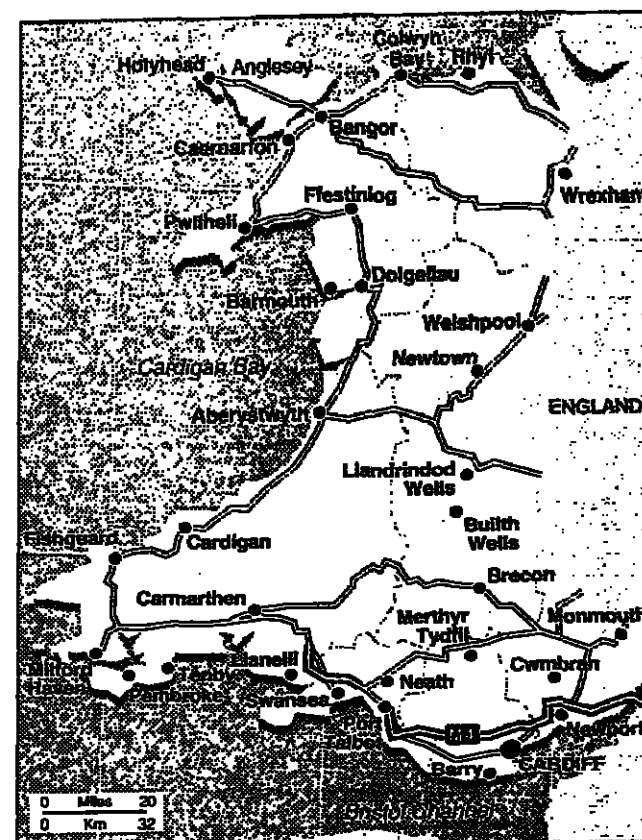
"For these people the end of recession and the start of the upturn can be a dangerous time. Small businesses tend to see light at the end of the tunnel, put in a burst of expansion and find they are doing too much for the climate of the time. They have got in front of their financial abilities and can have an extremely difficult time negotiating this period."

Although Wales had one of the fastest growing regional economies in the second half of the 1980s, it still has inherent weaknesses. Mr Thomas points out that growth has not been translated into greatly increased prosperity and the

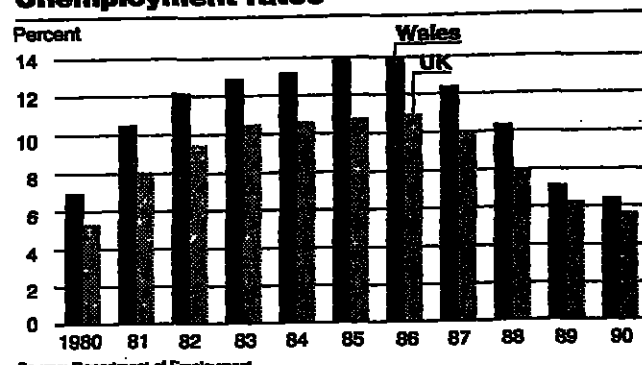
economy is characterised by a low level of activity.

"Wales has fallen well behind the British average on earnings over the last decade," he says, "and the fall in unemployment has not been as great as in many other regions."

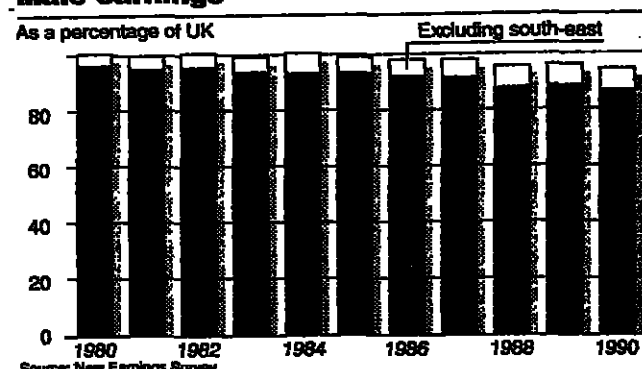
There continues to be regional unemployment blackspots, he says, especially in some of the valleys of South Wales and the smaller towns of mid and north Wales; agriculture is depressed; there is a relatively low proportion of the workforce in the higher payment sectors such as financial services and information technology; and the private sector is still investing inadequately. All this will have to change before it can really be said that Wales is out of the woods.



Unemployment rates



Male earnings



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KEY FACTS

	Wales	UK
Area (sq km)	20,788	242,520
Population (thousands, 1990)	2,881	57,411
Population density (per sq km)	138.7	236.7
Population growth (1981-89)	2.1%	1.6%
Age structure (1989)		
below 15 years	20.3%	20.3%
above pension age	19.5%	18.2%
Live births per 1,000 pop. (1989)	13.2	13.6
% of live births outside marriage	28.2	26.6
Deaths per 1,000 pop.†	12.2	11.5
Ethnic minority pop as % of total	1.2	4.7
GDP (1989, £m)	18,306	438,774
GDP per head (1989, £)	6,372	7,666
Economic activity rates (1989)		
Males	68.7%	74.3%
Females	45.9%	52.4%
Employment Structure (1989)		
Agriculture, energy & water	5.0%	3.4%
Manufacturing	24.5%	23.1%
Construction & distribution	30.2%	31.8%
Other services	40.3%	41.7%
Unemployment (June 1991)	8.8%	8.1%
Strike days per 1,000 employees	314	181
Personal disposable income index	86.3	100.0
Weekly earnings (full-time gross, 1990)		
Men	£258.60	£295.60
Women	£180.30	£201.50
Education (1989)		
Pupil/Teacher ratio - primary	22.3	21.8
Pupil/Teacher ratio - secondary	15.3	14.9
16-year-olds staying in education	63.1%	63.3%
NHS staff per 1,000 population	204.8	188.8
Owner occupation as percentage of housing stock	71%	67%
Building Society borrowers average dwelling price (1990)	£46,500	£59,800
Index of dwelling prices, 1990 (1985 = 100)	201	199
Cars per 1,000 population (1988)	327	355

† 1989 figures

* = Great Britain

† = % of population aged 16 or over in civilian labour force

Source: CSO Regional Trends 1991, Employment Gazette

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WALES 3

FINANCIAL SERVICES

Principality gains as the big names find a second home

IN 10 days' time Wales meets the City of London when Mr David Hunt, Welsh Secretary, hosts a dinner for the City in Lancaster House at which he will extol the virtues of the principality, and in particular south-east Wales, as a financial centre.

It is a measure of the way in which South Wales has become a home for financial services companies that this dinner should have become an annual event. Ten years ago it would have been laughable to have bracketed Cardiff and the City in the same breath; today, Wales has a flourishing financial industry.

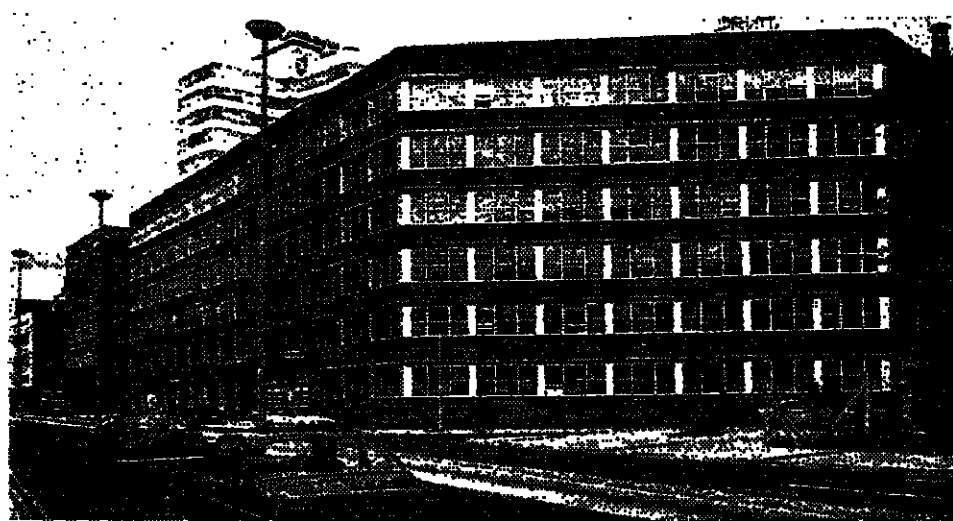
It still has a long way to go before it can claim to be a leading financial centre. But it has made important steps along the path. Mr Peter Walker, Mr Hunt's predecessor, used to like to point out that the financial services sector employed two or three times as many people as coal and steel combined. Today, that statement raises no eyebrows.

A financial services initiative, launched by the Welsh Development Agency with the backing of the government three years ago, has played an important part in the growth of the sector. This has seen a small financial industry that contained names such as the Bank of Wales, a subsidiary of the Bank of Scotland, Principality Building Society and Chemical Bank expand in all directions.

Next Friday six days before the Lancaster House dinner, the Principality, a medium-sized society, 24th in the building societies league, is to host a dinner in Cardiff's city hall to mark the attainment of a £1bn assets base. In the next few weeks the society will move into a new purpose-built headquarters in the city.

Six weeks ago, at the end of July, Venture Link Investors, a Maidenhead-based concern, launched a £3m venture fund aimed at equity funding for unquoted companies and product development finance. A few days earlier NCM, the Dutch insurance company, had completed the takeover of the Export Credits Guarantee Department's office in Cardiff.

New names abound. Axa, the French insurance company, Aegon Life, a Dutch life assurance concern, and Das, a German insurance concern, have all joined the community recently. For Aegon, the Cardiff office is only its second in the UK outside central London.



Chemical Bank in Cardiff: the merger could affect its operations

Axa has chosen Cardiff as the centre for its UK general insurance operations. It bought Westgate Insurance, a local company, a decade ago, changed the name to Axa last year, and used it as a vehicle to develop general insurance in Britain and has seen its premium income rise to around £80m, of which motor business, the company's largest, accounts for half.

The move to Cardiff has been so successful that Axa has built up a staff of some 250 in the Welsh capital and is now looking for bigger premises within the city. Nor is Axa alone. Willis Wrightson Wales - part of Willis Corroon, one of the world's big four insurance-to-financial services groups - has seen its business rise to the point where it has had to move into larger offices within Cardiff and Charter Trust, a wholly-owned subsidiary of Standard Chartered, has set up a new computer centre to serve not just itself but also its parent bank.

Since Mr Walker launched the financial services initiative, other names that have arrived include N. M. Rothschild, National Provident Institution, D. C. Gardner and BNP Mortgages.

Earlier arrivals include TSB Trust, which established its general insurance division in Newport in 1987, and the AA which set up one of its three main insurance booking centres in Cardiff in 1977. Nor is this the end of the story. Others are in the pipeline. Credit Lyonnais is looking at the options of opening an office in Cardiff, possibly next year, and the Prudential is thought

likely to choose the city as one of its main centres in a shake-up of its own regional operations.

Most of the newcomers have, not altogether surprisingly, chosen Cardiff but there have been new arrivals across the whole of south Wales, from Newport in the east to Swansea in the west. They have been attracted by reasonable office rents, a good supply of office buildings, available labour and lower wage rates than in many other parts of Britain. Many of these companies have come to south Wales because they want to escape pressures such as high labour turnover and escalating property costs which are an inevitable concomitant to operating in the home counties.

But now things are changing as the recession bites. Many of those pressures remain but as the shake-out in the financial sector in London and the south-east of England gathers pace, the comparative attractions of South Wales begin to recede. There is some evidence that the flow of business to Wales is beginning to slow.

Not only is the south-east now a stronger competitor. Bristol, just across the Severn Bridge, is also emerging as a viable alternative for a company relocating out of the south-east. Bristol has suddenly found itself with surplus office space and labour and as a city with a strong financial tradition it must now become a serious competitor to South Wales for any company looking to relocate.

The merger in the US between Chemical Bank and Manufacturers Hanover Trust

also poses a question-mark. Chemical Bank has built a highly successful back-office operation processing accounts and data functions since it arrived in Cardiff in 1983. The merger means that all the company's worldwide operations will be under review and there is a possibility, albeit slight, that the Cardiff business could be affected.

Mr Phil Morgan, director of the financial services initiative, believes the changes taking place in world banking offer opportunities as well as threats. "The move to increasing size by the European financial organisations and the desire of American and Japanese banks to set up in Europe before the end of next year offers considerable scope for South Wales."

"These banks and insurance companies may still want their head offices to be in London but they will be looking elsewhere for their support operations. South Wales is excellently situated to win the back-office support work that these concerns will want," he says.

All the majors in almost every field are now in Wales, Mr Morgan adds. "The importance of that is that in almost every sector today it is impossible for the small concern to give the depth and range of facilities necessary for investment and other decisions."

"With all the big names resident in Wales the country is in a strong position to do everything that a company can want. That is a very big step forward for the economy."

Anthony Moreton

"WE DON'T sell Wales just on questions of price," says Mr Philip Head, the new chief executive of the Welsh Development Agency.

By this he means that companies are not being drawn to Wales solely because of the help on offer.

But although the comparative cheapness of setting up in Wales may not be everything, it certainly helps if a company can keep its costs low through what is, in effect, a subsidy.

Parts of Wales are development areas and others have intermediate status. This means they qualify for government help. Nowadays, this means regional selective assistance. As the name implies, that is more discriminatory than the old regional grants. But the help can still be substantial. One agency worked out that for its area (not Wales), selective assistance could amount to 30 per cent of a start-up cost.

South Wales and other parts were also coal and steel areas. Help is available from the European Coal and Steel and Coal Community Funds. Some areas of Wales are designated Objective 2 under the European Regional Development Fund, and thus qualify for infrastructural assistance. There can also be help for training from the European Social Fund.

Last but by no means least, there is the WDA itself.

It is split into several divisions. Welsh Development International is the inward investment arm of the WDA. It had a record year in 1990-91, attracting 147 projects which should generate £385m of capital investment.

Other sections are involved in rural development, land reclamation, investment management and business services. Most significant of all, for purposes of attracting new companies and helping others expand, there are wide property activities.

The WDA manages a portfolio of around 18m sq ft of industrial and commercial property. In the 1990-91 accounts this was valued at nearly £500m.

As with government assistance, the nature of the WDA's factory and office building is changing. There is a greater drive to involve the private sector. Welsh Property Venture (WPV) was established in 1989 to promote joint venture opportunities between the agency and private developers.

In its first full year it exceeded its target of 500,000 sq



Philip Head: "We don't sell just on price"

Welsh Development Agency

Gateway to the help on offer

It of building starts and 400,000 sq ft of building completions. The leverage ratio was 1:4.3, i.e. £1 of public sector money for every £4.30 of private money.

The WDA still has its own direct build programme and in 1990-91 it completed 1.2m sq ft of industrial and commercial floorspace, both commercial and bespoke.

The agency makes money from its property activities. Of its total funds of £153m in 1990-91, around £85m came from the government. Much of the rest was from property, through rents or disposals.

But the fact that the WDA can offer cheap factories either for sale or rent, as well as make investments, represents another set of incentives for companies. The average rent per sq ft on property let by the WDA during the year was £3.10, which is cheap compared with other parts of the UK.

What Mr Head means by saying price is not the only deter-

minant is that, even with subsidy and assistance, if other conditions are not right, companies will not be attracted.

"Toyota, one of the biggest manufacturing investments in Britain in recent years, chose Derbyshire. Wales only got the engine plant. Honda went to Swindon. Neither of these is an assisted area," Mr Head says. He feels that assistance is important at the margin in choosing between one place or another. What matters is the total package on offer.

Many of the old industrial areas are assisted but they also usually have a pool of skilled labour. Wales has traditionally been a low wage economy compared with other parts of Britain. Now that the work-force is not so heavily unionised, industrial relations are better and the labour force is well-suited for incoming manufacturing concerns. Single union deals and shift working are increasingly the norm.

Cheap, skilled and compliant

labour is probably as important as grant aid in pulling in companies. But there are other factors. Even without assistance, greenfield sites are cheap. With the M4 running beyond Cardiff, communications with London and Heathrow airport outside London are good.

Equally important is that Wales can be sold as a separate country. Foreign investors can be persuaded of its distinct cultural and national identity: it is more than just a region of Britain.

With its own secretary of state and the Welsh Office the administrative circuits are shorter in Wales, as they are in Scotland compared with say, the north-west and north-east.

Arguably the most important draw of all is that an organisation like the WDA exists. The WDA pulls together the various attractions. It points out what is on offer.

Above all, the WDA actively promotes and sells Wales. It has representatives in the US, Japan and Germany, and is about to open an office in Brussels.

Inward investment has become a very competitive business with not only Scotland and Ireland, but many European countries, such as Denmark and Portugal, setting out their stalls to attract grants.

The WDA was established in 1976. In its early days it felt overshadowed by its Scottish equivalent and the Irish development agency which had been in business longer and could offer extremely attractive packages in terms of grants, training aids and tax concessions.

At first the Welsh Development Agency tried to capture anything that moved. It wanted to create jobs - any jobs. Slowly they began to attract prestige projects, and persuade indigenous businesses to grow.

Mr Head says: "We are still interested in volume, but we want to target specific sectors more closely so that we can get added value and improve wage levels."

He is thinking in terms of high technology companies, health care, automotive products and companies with an element of scientific research.

Apart from the foreign competition, the recession has made life more difficult. "We see fewer inquiries, but of those inquiries more companies follow through to completion. More companies are serious," he says.

Stewart Dalby

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own the environment. What we
do have is the commitment and
ability to improve it.



WELSH WATER PLC

EXPECT EXCELLENCE

WALES 4

POLITICS: Anthony Moreton on Labour's stranglehold

Hard climb for the Tories

FRIDAY, May 17 is a day that the government would prefer to forget. In the early hours, the Tories learnt that they had lost Monmouth, their second safest parliamentary seat in Wales.

As the returning officer intoned the news in Aberystwyth's leisure centre that Sir John Stradling Thomas's 9,350 majority had been turned at the by-election into a Labour majority of 2,406, Mr Roger Evans, the Conservative candidate, his agent and his supporters listened grimly. By chance, that Friday was the start of the Labour party's annual Welsh conference and hours later Mr Huw Edwards, the victor, was being cheered by Mr Neil Kinnock, his party leader, and several hundred delegates in Llandudno.

A disappointed Mr David Hunt, the Welsh Secretary, was having to come to terms with the fact that a wheel had fallen off the drive to make the Conservative party a viable force in Wales. The result was not the worst by-election reverse the Conservatives had suffered during the present parliament; two months earlier Ribbles Valley had fallen to the Liberal Democrats with a 22.4 per cent swing and in October last year the swing at Eastbourne, again to the Liberals, had been 19 per cent.

Put in that context, the swing to Labour at Monmouth, at 13.5 per cent, could be seen as almost a "success" in damage limitation terms. But it followed the loss in Wales of the Vale of Glamorgan seat two



Labour leaders from Welsh seats: James Callaghan, Michael Foot and Neil Kinnock

years earlier.

Almost a decade ago, the Conservative party believed it was capable of breaking the stranglehold that the Labour party held on Wales. At the 1983 general election the Tories gained four constituencies and ended up with 14 of the principal's 33 seats. Labour was, if not reeling, definitely hanging on outside its industrial base in the South Wales valleys, where they traditionally weigh rather than count majorities that top 30,000.

Although there was a setback for the Tories in 1987, Mr Peter Walker, the incoming Secretary of State, was determined to show that his vision of caring Conservatism could convince the people of Wales there was a healthy alternative to the grip exercised by Labour in so many places.

If the Conservatives are to avoid being marginalised, as they have been in Scotland, Mr Hunt has a mountain to climb. Safely ensconced with a majority of almost 13,000 in the Wir-

ral, which butts onto north Wales, he now oversees a desperate fight even to hold the party's remaining six seats. Three of these are real marginals, the "safest" cushioned by a majority of 3,024. Only one of the others has a majority that runs into five figures. In such a situation, MPs brush up their CVs and put their faith in the weather, the economy, Tarot cards - almost anything except the electorate.

Mr Hunt's task has not been eased as Labour has sharpened its act in the past half a dozen years. It has a group of young, able MPs such as Mr Alan Michael and Mr Rhodri Morgan from Cardiff, Newport West's Mr Paul Flynn, Torfaen's Mr Paul Murphy and Caerphilly's Mr Ron Davies, several of whom are seen as ministerial talent. It has also improved in the constituencies. Winnable seats have been targeted and all the aids of the modern computerised society employed - something more usually associated with the Tories.

Labour, happy to be able to "ignore" a dozen of its own seats safe in the knowledge that a cataclysmic upset would be needed to suffer defeat, goes into the election aiming to win more.

While the Tories have been battered, their cause is not completely lost. Curiously, they could win seats even if there were a strong swing against them. Wales has a number of constituencies where the votes are spread fairly thinly among four candidates.

Strategic voting could throw up unexpected results. This happened in 1987 in Ynys Mon, where Plaid Cymru, the Welsh Nationalists, captured a seat from the Conservatives that had once been Labour. The Tories could regain this seat with a little luck as they could Brecon and Radnor, real finger-nail country, which Mr Richard Llewellyn won in a by-election for the Liberal Democrats from the Conservatives in 1988 (it had been Labour in the 1970s) and now holds by just 56 votes.

Plaid Cymru appears to be firmly established in its other two seats in North Wales at Caernarfon and Meirionnydd. Nant Conwy and the Liberals' other MP, the highly-popular Mr Gerald Howells, seems equally assured of grasping the Commons benches once more from his Ceredigion and Pembroke North base.

At the second tier of government Mr Hunt has started the process of the reorganisation of local authorities that is being undertaken contemporaneously in England and Scotland. He has proposed a major shake-up in which the eight counties and the 37 district councils disappear and a single tier of all-purpose councils is introduced in about 20 areas.

It is an irony that will not go unnoticed on him that this course largely undoes what his predecessor introduced in 1974. Then Mr Walker, who was at the time environment secretary in the Heath government, introduced an enormous reorganisation of local government that was aimed at undermining Labour's stranglehold on the large cities and industrialised counties of Britain.

That reorganisation has been overturned. The Greater London Council has been abolished as have the English metropolitan counties such as West Yorkshire and the West Midlands. All that remains are the unloved counties of Avon, Humberside and Cleveland and a lot of smaller counties with names to which no one can put a geographic face.

In Wales the main effect of the reorganisation was to reduce the counties from 13 to eight. Now Mr Hunt suggests they, too, should disappear although established foreign companies such as Sony, which will be hit as hard as the whole picture. Around half the investment is from British or indigenous companies or from expansions by already established foreign companies such as Sony.

The WDA, in its annual report for 1990-1991, claims it had a record year attracting 147 projects, involving £586m of capital investment. This could pave the way to 15,000 jobs. Since the WDA was set up in 1976, nearly 52,300 jobs have been committed or invested and more than 60,000 jobs have been created or safeguarded.



Sony, which has been manufacturing colour television sets in Bridgend for 18 years, is to move production to Pencoed

INWARD INVESTMENT

Stayers and subsidy seekers

SONY'S decision to invest £147m on a television factory at Pencoed in Mid-Glamorgan has made the headlines this year. The Japanese company has been manufacturing colour televisions at Bridgend in South Wales for 18 years.

It will now move its colour television production from Bridgend industrial estate to the greenfield site at nearby Pencoed. This will release space on the existing site to expand its cathode ray tube manufacturing operation.

The new factory will include production facilities for colour televisions and computer display monitors, a research and development centre and a multi-purpose sports facility.

It will eventually provide 1,400 jobs, a mix of both skilled and semi-skilled. Training will be provided.

The Welsh Development Agency has thus continued to make big catches in the competitive business of attracting investments.

Last year British Airways decided to build a new maintenance base for its aircraft at Cardiff-Wales Airport. That should lead to 1,200 jobs and an investment of £100m.

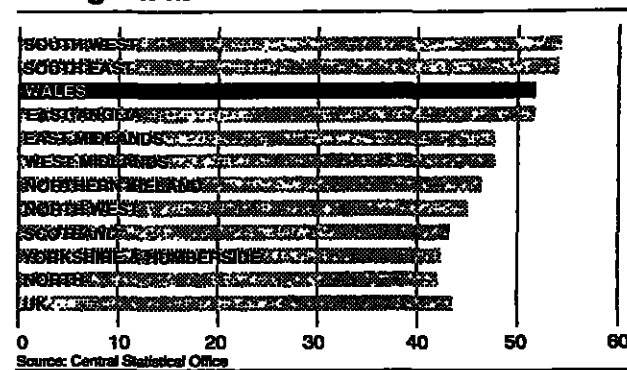
Earlier, Toyota said it would build a £140m engine plant on Deeside in North Wales, while Bosch announced plans for an alternators factory outside Cardiff at a cost of £120m.

In all, there are now 330 foreign manufacturing concerns in Wales. There are 41 from Japan, and these usually attract a lot of publicity. It is claimed that this is the biggest cluster of Japanese companies in Britain, more than the 20 concerns in Telford and the 34 in Milton Keynes. However, Wales has also pulled in 150 companies from Europe and 140 from North America.

The large incoming foreign concerns are the ones which create news but they are not the whole picture. Around half the investment is from British or indigenous companies or from expansions by already established foreign companies such as Sony.

The WDA, in its annual report for 1990-1991, claims it had a record year attracting 147 projects, involving £586m of capital investment. This could pave the way to 15,000 jobs. Since the WDA was set up in 1976, nearly 52,300 jobs have been committed or invested and more than 60,000 jobs have been created or safeguarded.

GDP growth in UK: 1985 to 1989



Source: Central Statistical Office

So it seems that the WDA and other agencies have been successful in attracting companies to help achieve the wider goal of creating jobs and diversifying the economy.

Like other old industrial areas, Wales had a pattern of dependence on a few big employers. Twenty years ago, steel, coal and related engineering and transport industries accounted for a third of all manufacturing jobs.

The recession of the late 1970s and early 1980s hit Wales particularly hard. The steel industry is much reduced and coal mining has virtually disappeared. There are just 2,000 jobs left in coal.

This time the downturn in the economy has had a greater effect on white-collar companies. The early 1980s recession hit manufacturing concerns. Wales has attracted some service industries: TSB general insurance and Bisleys Office Equipment both set up operations in Newport. National Provident Institution moved some activities to Swansea.

Despite a financial services initiative by Mr Peter Walker when he was Welsh Secretary, the principality's industries

remain predominantly in manufacturing. According to the WDA, around 80 per cent of new investments are in manufacturing companies.

But it is a different kind of manufacturing economy. It is more diversified, has less reliance on a few large employers and has a greater proportion of science-based or high technology concerns.

Recession has caught up with Wales, if a bit later than in the south-east. Unemployment is 8.8 per cent overall, compared with a national average of 8.1 per cent and 6.9 per cent for the south-east.

Statistics in the local newspapers indicate that about two-thirds of manufacturing companies are not working at capacity. Business failures and bankruptcies are growing, and there is a lot of empty office property, at least in Cardiff. The WDA admits that the climate has become harsher, with fewer inquiries. Gaining investment is harder work.

Yet it seems unlikely that Wales will be hit as hard this time as it was in the last recession. But the economic downturn does raise the question of whether companies which have established themselves in Wales will disappear in

adverse conditions. Everyone connected with promotion of the local economy has in mind the 1980s and 1970s when the governments of the day tried to encourage companies to go to the regions using incentives and subsidies.

Often, these branch factories of large national or international companies left the areas when the economic climate turned nasty or the assistance ran out.

On the train from London to Cardiff, a businessman told me he was going to see the WDA about two plastics companies he represented. Only small, with turnovers of about £5m to £6m, they had been in Wales for about five years and were now thinking of moving because they faced difficulties and the incentives had dried up.

One company was considering a move to Warwickshire and the other to Kent. Neither of these places was an assisted area as such, but in both cases help was on offer.

Mr Philip Head, chief executive of the WDA, says that some small companies do try to get more help, while others go under or move away. But most of the investments are more durable than those in the 1960s and 1970s.

Over 40 per cent of all projects in 1990-91 were to expand existing companies.

The Japanese, in particular, tend to be stayers according to Mr Head. Given the capital outlay involved and the individual corporate cultures which the Japanese like to develop with their workforces, it is unlikely that they will decamp to Portugal or Belgium in a hurry.

Mr Head feels that subsidies and assistance are not the only factors that draw companies to Wales. Indeed, they are often not even the main influences.

Stewart Dalby

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NET PRODUCT AND FARMING INCOME				
	£m		Index*	
	1990	1991	1990	1991
NET PRODUCT				
UK	4,855	4,854	97.9	91.1
of which: England	3,807	3,885	94.2	87.9
Wales	275	224	98.7	93.0
Scotland	504	541	114.5	112.1
N Ireland	269	244	132.8	105.4
FARMING INCOME				
UK	1,513	1,286	107.3	84.0
of which: England	1,148	987	91.9	70.8
Wales	53	41	144.7	101.8
Scotland	152	172	459.9	470.9
N Ireland	160	118	774.5	115.6
TOTAL INCOME FROM FARMING				
UK	2,295	2,113	102.9	87.7
of which: England	1,598	1,500	88.7	78.7
Wales	146	145	102.9	93.0
Scotland	212	238	205.4	211.3
N Ireland	212	189	145.5	105.8

*The most recent figures for the UK, 1990 = 100. (Forecast Note: The figures for farming income cover farmers and spouses only, while total income takes in those with an entrepreneurial interest in the industry, ie non-partnership partners and spouses. Source: Farm Income in the UK, 1990, Ministry of Agriculture, Fisheries and Food

AGRICULTURE

Turmoil over EC plans

PENTREGWYN lies on the side of Epynt, a mountain range where the only noise besides that of sheep is the wind in the trees. From the farm's front door there are stunning views across the valley and the Brecon, its gentle stream, toward Brecon six miles away.

But views do not buy vegetables and the Joneses who farm Pentregwyn - Bryan and his wife Fiona - are at the sharp end of the problems that face everyone in the Welsh farming community, especially in the upland areas of mid-Wales.

Bryan Jones, together with his father Roy and brother Owen on next-door Gwarthyllan, have worked the area efficiently for years. As with most farmers everywhere, farming is more than a livelihood: it is a way of life. Now, like others throughout mid-Wales, they are having to come to terms with changes in agriculture forced on them by the need to control the colossus which the EC's common agricultural policy has become.

Ten years ago they were predominantly sheep farmers; today their 211 acres are home to 45 cattle and 450 sheep.

"There is great uncertainty about the future," Bryan Jones says. "Costs are rising, prices falling and all the farmers around here are under pressure." A report this summer on future agricultural prospects in mid-Wales showed how farming would have to change even further if it was to survive. Farming would become almost a part-time occupation, wrote David Bateman, professor of agricultural economics at University College, Aberystwyth.

Farmers would have to supplement their incomes by doing other things. Bryan Jones already knows the truth of this. He has become an agent for Osmond's, a producer of animal nutrition products.

Professor Bateman's report pointed out that the rate of decline in agricultural incomes in the 1980s was "significant" despite the vital role the industry plays in the economy of mid-Wales. Prices of all the main products were lower towards the end of the decade than at the start - by some 10 per cent for cattle and milk and by 15-25 per cent for sheep products. This year, it is hard to give the wool away because of world oversupply.

Output of cattle and milk has also declined in mid-Wales - by between 9 and 13 per cent - though the sheep farmers have fared better since the profitability of the sector in the early 1980s led to an expansion of some 29 per cent. But with interest rates rising sharply, other costs going up and government support levels coming down, economic pressures on those earning a living from farming have increased and average incomes have fallen since people tend not to move out of the industry.

But Prof Bateman believes that this trend might be reversed in the years ahead as the farming community is ageing so that its numbers will decline, leading to a rise in

incomes. What worries Mr Glyn Davies, chairman of the Development Board for Rural Wales, a quango set up to regenerate the economic life of the area, and himself a sheep and cattle farmer near Welshpool, is that the industry is becoming subsidy-dependent.

"Twice as much subsidy is being paid for sheep as the price we get for it. That cannot be a good thing." The development board commissioned the Bateman report and has accepted that it must do something to underpin the sector.

So it is helping to build an abattoir in Llanidloes for sheep and lambs, entering into partnership with the area's main Training and Enterprise Council to provide business advice, assisting an animal-feed company to expand and increasing its grant to Food Promotion Wales, which co-ordinates the marketing of Welsh foodstuffs, from £15,000 to £100,000 a year over the next three years.

In the background, still, are the proposed changes emanating from Mr Ray MacSharry, the European commissioner for agriculture. These are strongly opposed by Mr John Gummer, the agriculture minister on behalf of Britain's farming industry, but Mr Davies and Prof Bateman believe that many of the changes could benefit mid-Wales.

Significantly, the Farmers' Union of Wales, which is much closer to the small Welsh farmer than the National Farmers Union, which is dominated by the big English farmers, has played down criticism of the MacSharry plans.

The essence of these is modulation, which in the jargon of Euro-speak means discriminating in favour of the small man. Mr MacSharry has produced proposals which would benefit farmers with up to 750 sheep or with milk quotas up to 200,000 litres a year. About half the Welsh farmers come within these brackets and if the quota figures were raised to 200,000 litres it would encompass virtually every one of them.

Mr Gummer is opposing these limits and while it is acknowledged he is doing so because the proposed policy is intended to help poorer farming countries such as Portugal, Greece and Italy, the MacSharry scheme could be of benefit to mid-Wales and much of the rest of the principality.

The arguments in Brussels illustrate just how far the ability of government, or government-appointed bodies such as the development board, to help with local issues is now severely circumscribed. A policy that may be geared to southern Portugal or the north German plain now has to be accepted, willy-nilly, for Wales.

Prof Bateman is not one to search for a crack of gold at the end of a rainbow. It is of no use to the Joneses or Davieses of mid-Wales since their land is unsuitable for such conversion. But they can hardly be blamed for thinking of how they will be able to make ends meet in 10 years' time.

Anthony Moreton

ONE OF the more diverting pastimes on the Welsh corporate scene over the past year has been to watch the small war between Welsh Water and South Wales Electricity.

Ostensibly, this is a little conflict between one highly profitable privatised utility trying to get control, or at least have a say in the affairs, of another smaller but also highly profitable privatised utility.

But the tussle has broadened to the point where questions of Welsh nationalism have become involved and Mr John Elfed Jones, the chairman of Welsh Water, has been accused of trying to turn his company into a sort of monopolistic Wales PLC.

Hostilities started last December when Welsh Water bought a 10 per cent stake in Swalec when it went private. The shareholding has since been raised to 14.9 per cent.

Mr Jones has said that this is not with a view to a full takeover. That would be difficult because the government holds a five-year golden share in Swalec and its articles limit any shareholder to a maximum stake of 15 per cent.

(It would be difficult but not impossible. The 15 per cent threshold could be removed if the Welsh Office and the Department of Trade could be persuaded that a merger of the two companies would create savings for customers and benefits to shareholders.)

The reason for the shareholding is to concentrate the board of Swalec's mind on Mr Jones's belief that there could be savings from co-operation

between the two utilities.

A report commissioned from Kleinwort Benson Securities, WW's stockbrokers, said joint ventures could result in savings of at least £10m and possibly a lot more.

The areas that WW has in mind include joint billing, joint engineering and maintenance. At the moment water users can pay their bills in Swalec's offices, but that is the extent of co-operation.

The attempt at joint ventures is line with Mr Jones's philosophy of expanding WW into areas where there are synergistic benefits. Yes, he does want to build a strong indigenous Welsh company which is capable of competing on a world stage. Far too many concerns in Wales, he believes, are satellites or branches of international companies where control over jobs and investment rests outside the country.

Critics say the profits should be used to concentrate on core business and on clearing up the environment. Any profits after that should be used to reduce prices to the benefit of the consumer. There is an implicit feeling that the WW company should not be using its resources to build a bigger monopoly than it already has, even though it would be a Welsh monopoly rather than

Stewart Dalby looks at the impact of a power struggle

Privatised utilities go to war



John Elfed Jones, across the Taff from Cardiff Arms Park

an English one.

In the year 1990-1991 Welsh Water made pre-tax profits of £128m on turnover of £293m. This was a 32 per cent increase. The dividend was increased by 16.4 per cent.

The reason for the good profits was that the company's debt was "forgiven" when it was privatised, and the company was given a large amount of money as a "green downy" at the time. Welsh Water managed this downy well and in 1990-91 it made £21m profits from the increase in interest rates over 1990-1991 alone.

The company also started life as a private company with

a generous "J" factor. That is the amount it is allowed to increase prices over the retail price index. WW was given a "J" factor of 6.5 per cent and this meant it could increase prices by around 15 per cent.

Mr Jones admits that WW is in practice a monopoly. "That is why there is a regulator," he says. "If the regulator finds we are charging too much for our services he can tell us to reduce prices."

"I get fed up with having to apologise for being successful." He denies that the core business is in any way ignored.

"Nothing is allowed to interfere with the safe management

of our core business."

He points out that the company spent £25m on environmental improvements over and above the capital expenditure programme. It spent a further £20m on other improvements outside the capital programme. The investment in 1990-91 was £160m and is scheduled to remain at or above this level to the end of the century.

At the same time, Mr Jones has branched out into related businesses. He has bought five country house hotels. The logic here is that they are close to water or good walking and climbing territory. He wants them to develop along the lines of Scotland's fishing lodges.

He points out that Welsh Water is the largest land owner in Wales with 93,000 acres.

He has also set up a joint venture in environmental consultancy which operates in 20 countries and which is also involved in engineering design and maintenance. He is looking at the possibilities in waste disposal.

Now, of course he has his eyes on South Wales Electricity. Swalec does not cover all of Wales, as Manweb operates in the north of the country. Swalec has around 2.1m customers compared to WW's 3m.

A year ago, Swalec looked vulnerable. A loss of its supply

business to utilities outside the country and a poor performance from the retail sector resulted in a low return on capital employed.

In 1990-91 pre-tax profits were £58.1m, an improvement of 31 per cent. The dividend rose by 6 per cent.

Mr Jones, who had spent 15 years in the electricity business, was one of those who realised the effective monopoly on distribution was the key to profits irrespective of who was the end-supplier of electricity.

Mr Wynford Evans, the chairman of Swalec and an erstwhile friend and fishing company of Mr Jones, admitted that prices for distribution had gone up but said in announcing the latest results last July: "We contained our recent tariff increase within the limits set by our regulatory formula, and this increase was more than 5 per cent lower than Welsh Water's."

Swalec was cutting costs by 4.5 per cent in real terms and working on more efficiencies.

With the company profitable and looking to become more so, there is little enthusiasm for a closer embrace from Welsh Water. Mr Evans said: "My fellow directors and I are wholly opposed to any concept of a multi-utility grouping which would bring no material benefits and would be contrary to the interests of customers and shareholders."

Yet Mr Jones genuinely believes there is an industrial logic to co-operation and seems prepared to go to great lengths to press his suit. This little war could run for a long time.

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WALES 6

What the A55 expressway could mean for North Wales

The road to opportunity

AT THE end of next month the Queen will open the £190m crossing that will take the A55 expressway under the Conwy in the shadow of one of Britain's greatest castles.

The mile-long tunnel, technically an immersed tube, is the first of its type to be built in Britain and the choice of a tunnel rather than a bridge to cross the river was taken to minimise the environmental impact on Edward I's fortification which already has one of Telford's bridges alongside it.

The A55 was described two years ago by Mr Peter Walker, then Secretary for Wales, in a magnificent piece of type as "the road to opportunity". With the Conwy crossing open, only one small section remains to be put in place before the dual carriageway links the English motorway system in the east and Bangor in the west.

In the next few years the road will cross the Menai Strait and run on to Holyhead.

The road has already had an effect in sucking investment westward. Euro company, Euro/DPC, a subsidiary of Diagnostic Products Corporation of Los Angeles, chose Llanberis, in the shadow of Snowdon, this year as the site of its European headquarters for the production of medical diagnostic products, creating 300 jobs in the first instance.

One arrival does not signal an economic upturn, though, and the economic consequences of the road have still to be proved.

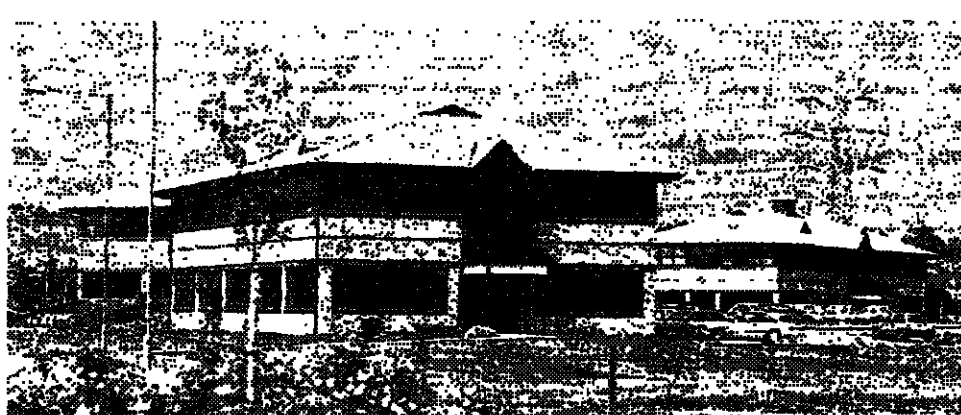
The improvement in the North Wales economy, which has undoubtedly taken place in the area centred on Wrexham has still to percolate westwards.

The eastern part of Clwyd, which butts onto England, has been a notable growth sector in the past few years with the arrival of some very big names, such as Toyota. Its engine plant complements those of long-time industrialists such as Pilkington.

Even here the recession has



The A55 expressway has become a magnet for hotel development along the north Wales coast. The first four-star hotel to be opened - which caters for the business community - is the St David's Park, (above) at Deeside, on the business park.



taken its toll. Mr Richard Ashton, the county's marketing manager, admits that the level of inquiries is not running as high now as a year ago. "We have certainly seen a downturn," he says. "Companies are reluctant to commit themselves in the present climate."

Yet there are welcome signs. Hamilton Brothers, the oil and gas concern, is to build a gas processing plant at Point of Ayr where it will bring ashore gas and oil from its "significant" find in block 110/13 in the Irish Sea north of Rhyl.

"This will be a important investment for the area," according to Mr Ashton, "and will mean an infusion of new jobs, up to 500 during the construction phase and about 50 permanently when the station is operational and possibly as many as 150 indirectly."

Mr Steve Morgan is watching the economy closely. As chairman of Redrow, the largest privately-owned construction company in Wales with a turnover of £110m a year, he has just completed the first phase of the £120m St David's business park that has already attracted Scottish Amicable, Bank of Wales, Barclays, Allied Dunbar and National Grid. He has also put up the four-star St David's Park hotel on the site.

"We have gone a stage further than just creating a business park," he says. "We have just completed the only purpose-built day nursery in Wales there. This is a major attraction for any employer since he can offer jobs to married women who know their children will be both near them and safely looked after."

"Wales has come a long way in the last five years and, while margins in our business are tighter as a result of the recession, there is great optimism that this part of the country will continue to expand. The upgrading of the A55 expressway has presented a number of development opportunities right along the coast. Now Clwyd is just 30 minutes from Manchester's international airport and no part of north Wales is much more than an hour away, which gives us great competitive pull."

The Welsh Development Agency is seeking to capitalise on the possibilities of revitalisation offered by the completion of the road by pumping more money into its urban programme. Major projects are to be undertaken at Holyhead, Rhyl, Caernarfon, Bangor and Conwy while feasibility appraisals are being undertaken over the next 12 months in Wrexham and Deeside.

"The main thrust of our activity will be concentrated

on Holyhead and Rhyl," Mr David Farnsworth, the WDA's director in charge of its urban programme, says. "We can see great market opportunities in these two towns. Each has declined, economically and environmentally, and their decline is clearly affecting the economy of north Wales."

"While we are looking at specific towns this year, we also want to look at Deeside, which is really a mini-conurbation. By the end of this month we should have worked out a multi-million pound programme for the area which can be put to both the agency and the local authorities."

"Our aim is to avoid the experience of the English urban development corporations such as London and Bristol which have been at odds with their local authorities and we have taken the councils into our thinking at every stage."

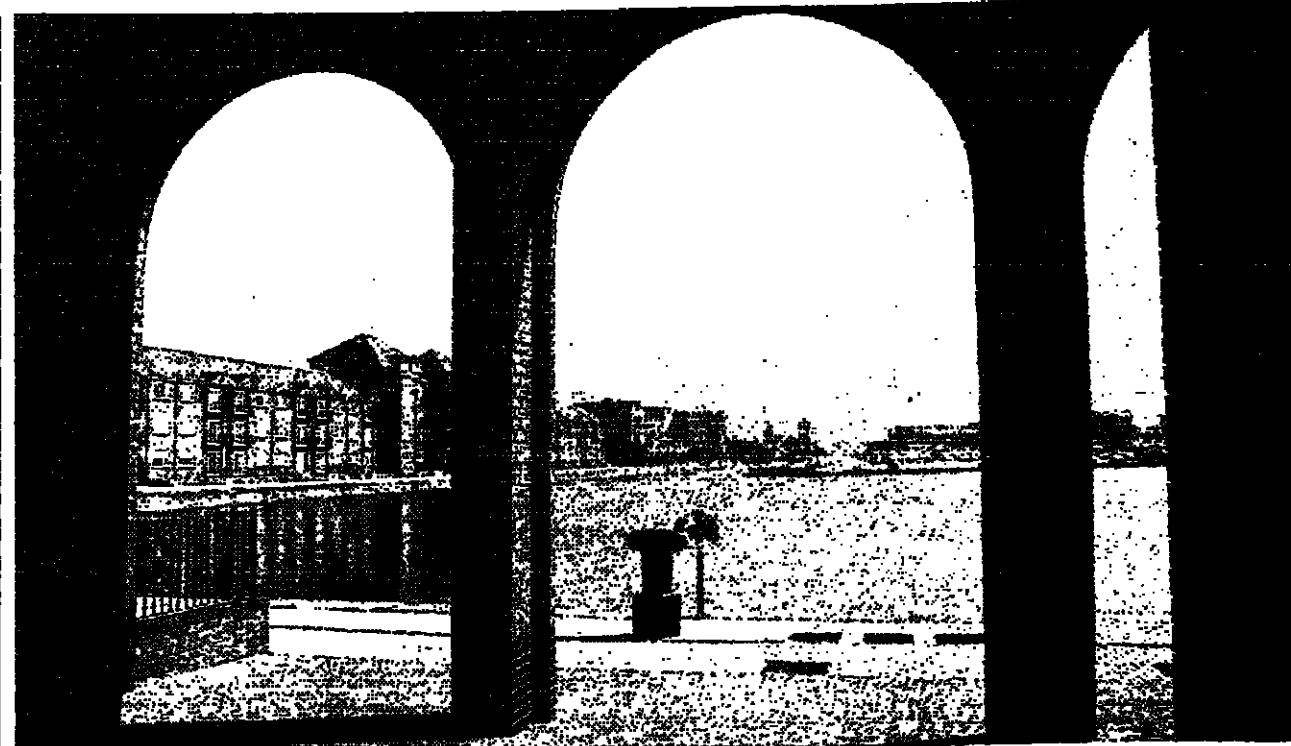
The success of all these projects - the road, the urban regeneration, the capital spending - will eventually be measured by the extent to which the more westerly parts of north Wales achieve greater prosperity.

Gwynedd county council has its own plans to create factories and site in small towns like Porthmadog, Penrynys-draeth, Llandegai and Caernarfon. It is working closely with the WDA to enhance its health care industry, which is growing, and media sector, which is strongly entrenched (especially in television and radio).

Mr Dafydd Jones, the county's economic development officer, says that with the increasing acceptance of the concept of electronic home-workers and telecentres as a result of advances in telecommunications technology, there is no reason why small businesses should not settle and prosper in Gwynedd.

The WDA has actually put money through a rural initiative into a technology resource centre in Porthmadog. Mr Jones says that with the county's environmental resources there could hardly be a better place in which to work. From his office he can see Caernarfon Castle, another of the world's great castles, and over his shoulder is Snowdon. It is, as he says with remarkable understatement, not a bad place in which to live and work.

Anthony Moreton



Swansea Dock - now the future looks brighter

Anthony Moreton finds a revival of confidence at the docks

Liberated ports work hard to capture more trade

IT HAS become conventional wisdom to assert now that ports on the west side of Britain are seriously disadvantaged as a result of the country's trade increasingly moving towards Europe.

One who has never accepted that port operators should sit back and watch them gently wither is Mr Gwyn Davies at Pembroke Dock who argues that the improved road network would offer unparalleled opportunities for Welsh ports in particular, as well as others on Britain's west coast, to capture trade that might have gone to docks further east.

Rising trade this year within the Milford Haven port complex, which includes Pembroke Dock, lends substance to the Davies view; throughput was up 11 per cent between January and July this year compared with the same months in 1990.

The Davies view is gathering strength. Abolition of the national dock labour scheme two years ago has liberated the five South Wales ports controlled by Associated British Ports (ABP) - Newport, Cardiff, Barry, Port Talbot and Swansea - one of which could

complement work being undertaken in the town by the local authority and the Welsh Development Agency.

Within the port the investment has gone towards a deep-water berth. Holyhead will now be able to berth the new generation of large roll-on-roll-off freighters which were previously kept out because of the port's relatively shallow water. Throughput in both Holyhead and Fishguard has been expanding and Mr Storey is confident that with extra vessels, and more money spent on the vessels themselves, such as the £7m refit on the Stena Hibernia, this trend will continue.

On the Holyhead-to-Dun Laoghaire run passenger traffic went up by 10 per cent last year and the number of cars by 16 per cent. In the south, on the Fishguard-Rosslare run, passengers and car traffic rose by about 10 per cent despite the Swansea Cork Ferries bringing back a summer service and fierce competition from a Pembroke-to-Cork run.

"Traffic to Ireland has been building up by a steady 3-4 per cent a year," Mr Storey says, "which augurs well for future expansion at the ports."

Milford Haven's problems are different. Being outside the dock labour scheme, no benefits accrued from abolition. Its problems relate to the future of the trust ports, of which it is one.

Government plans to put these ports on the market will be opposed by Milford Haven according to Mr Michael Hylop, general manager of its port authority. "Running the navigation of a port such as ours," he says, "is rather different from running a dock-oriented one. With our large oil throughput we have to be particularly mindful of the environmental needs of the area."

Milford Haven is also a conservancy authority, which distinguishes it from other ports in Wales. "Our relationship with the three major customers has also to be considered." The port is a vital landing point for Gulf Oil, Elf and Texaco and if any one of those were to become the controlling authority on privatisation it could affect relations with the others. "For those reasons we

feel privatisation is unlikely to be suitable here at the moment."

It is in the four dock labour scheme ports owned by ABP, though, that the real changes can be seen. The fifth, Port Talbot, is a slight exception. ABP owns the port but British Steel has a long lease on it and brings in all the iron ore and coking coal it needs for the nearby steelworks and for transshipment by rail to the Llanwern works at Newport. To all intents, this is a steelworks-oriented docks.

The other four were built around the middle of the last century to handle coal exports from the pits of the South Wales valleys. That trade has all-but disappeared, though there is a small but growing trade in coal imports.

The ports, Mr Bradley concedes, faced an uncertain future had the dock labour scheme remained. "They were struggling and while no decisions had been made, one wonders if they would all have been open and working in 10 years' time."

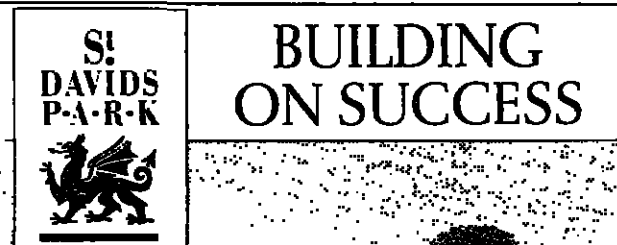
"Now the position has been completely altered and they look forward to a future with

some confidence. All of them have improved their performance with total traffic since abolition up by 7-8 per cent. Barry has expanded its fruit and vegetables trade, Newport, with its nearness to the motorway system, is also doing well with fruit and there is a significant timber trade in both Newport and Cardiff.

"All the ports are operating on a low-cost basis now," he says. "We no longer have to carry the high fixed costs involved in the labour scheme and we have gained freedom of action."

ABP has one other great advantage. Through Grosvenor Waterside it is developing up to 160 acres in Cardiff for leisure, offices and hotels around its waterfront, part of the redevelopment of Cardiff Bay. The centrepiece of this development will be an opera house for the Welsh capital which will be home to the renowned Welsh National Opera Company.

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WALES 7

Christine Moir looks at the work of the Swansea Bay Partnership

'Manufacturing creates more jobs'

DEEP RECESSION? So what? That is the attitude Mr Ian Spratling adopts as he gets on with the job of chairing the Swansea Bay Partnership: a community of towns, county and government agency which is striving to bring fresh business to the far west of Britain.

The optimism may be professionally adopted, but the energy which is being poured into the partnership by Swansea city, the towns of Neath, Port Talbot and Llanelli together with smaller boroughs, the counties of Dyfed and West Glamorgan, and the Welsh Development Agency, cannot be denied.

That they have persuaded 32 private companies to join them in the midst of a black recession in an ambitious plan to 'renew' the economy of south-west Wales, is a tribute to Mr Spratling's commitment and that of all his fellow executives. It also makes the Swansea Bay Partnership one of the government's better ideas in 1988.

Government backing initially amounted to a commitment to fund administration costs of £250,000 for just two years. But when the period expired last March, the partnership's remit was renewed for a further two years. It is also on the brink of winning a further year's subsidy from the European Regional Development Fund which will extend its life into 1994.

Some uncertainties remain. The government's suggestion (no more than a debating point so far) that local government should be reduced to a single layer - the so-called 'unitary arrangements' - would threaten some of the partners. No-one can yet be certain whether county, district or parish councils

are the most likely to be axed.

A general election before the period is up adds another factor, and a deepened or prolonged recession could strain the partnership if its members think they must concentrate on charity at home.

Short of all these elements turning sour, however, the partnership looks both stable and effective. In fact, according to Mr Spratling, "the next three years should be better than the last two". That is quite a claim. In the 1989-90 fiscal year new business investment in the Swansea Bay area totalled £106m. The following year that had soared to £300m and the partnership could claim responsibility for bringing in 513 new jobs, or seven of the 28 projects.

Largest of all the converts so far has been Alberto Culver, the haircare products manufacturer whose capital investment has topped £7m. But partnership officials confidently expect that figure shortly to be topped. "We have four major companies plus 30 smaller ones showing strong possibilities of moving into the region," says Mr Spratling, "and several of those are much larger than Culver".

That view is shared by Mr Mike Bourke, his chief executive, who confirms that the area is particularly attractive to US companies looking to expand eastward into the European Community and eastern Europe but wanting the reassurance of a common language, culture and political stability. "Americans feel relaxed in Britain," says Mr Bourke.

For those without the deep pockets of the top multinationals in the Dow Jones

Index, there is the attraction of low land prices relative to the rest of Britain. "If industrial development land costs around £900,000 an acre at Heathrow, it is only £45,000 down here," Mr Bourke points out.

Not that the new masters of south-west Wales are ready to welcome every new arrival with open arms. Swansea - and even more, Port Talbot and Neath - have had their fill of suffering local economies which danced to the tune of a single cyclical industry. The area never wants to be dependent again on a single employer. Today's measured development is to be based on diversity.

What that means in practice has already changed in the two years since the partnership was formed. "Last year the companies we talk to were predominantly in the service sector," Mr Spratling says. "This year they are manufacturers, mostly in light engineering. Manufacturing tends to create more jobs."

Mr Bourke shares that view: "I do not see how you can ever have an economy that is service-led. It would be like the mythical island whose inhabitants eked out a precarious living taking in each other's washing. Services must be there to support or give a push to manufacturing."

As a part of the service sector itself, the partnership's task is both to push productive industries to choose the Swansea Bay region and to support them with suitable premises and attractive commercial and social facilities. The M4 motorway connection to both London and the Midlands is a

strong card in the partnership's hand. So is the stable workforce. With labour turnover of less than 5 per cent a year even in boom times, Mr Spratling says he can make a real feature out of staff loyalty.

The reciprocal of that, he concedes, is to attract companies which deserve that loyalty. In the search for investors who will create long-term jobs suited to the skills of the local workforce, Mr Spratling is more than ready to pay tribute to the role of the Welsh Development Agency.

"I would like to acknowledge the assistance of the WDA," he says. "In their travels abroad, they frequently come across companies that fit our profile. They pass on the names and then stand back and let us get on with it. It is a terribly good working partnership." That partnership, plus the executives' own efforts and advisers have paid early dividends. Besides the manufacturers like Culver and Flox, the fibre optics group which invested in a £2m factory in Port Talbot last year, there have been some prize catches from the service sector. All the back office work for Lloyds Bank's Cox & King's Pall Mall branch is now handled from a building in the Swansea Enterprise Park, while the Inland Revenue is on the point of expanding its centre there to 551,000 sq ft, thus creating 270 jobs.

If this trend continues at the pace of the mid-1990s, the day may come before the end of the partnership's current remit when Port Talbot and Neath will be known for men in suits and boilersuits rather than jerseys.

PROPERTY

Towns that are defying the recession

ONE-OFF commercial property deals - be they lettings or investment purchases - are thin on the ground everywhere round the country. Tenants are rarely in the mood to consider future accommodation needs; short-term pressures to survive mop up all the directors' energies. Long-term investors, disillusioned with the performance of their property portfolios, are in no rush to call the bottom of the market and start buying again.

Wales is not immune from these baleful influences, but it does display some defensive qualities in recession that are not shared by other regions. Access for one, anywhere in South Wales is little more than a hop from Bristol these days along the M4, and the upgrading of the Heads of the Valleys Road to Merthyr is reinforcing the valley towns' climb out of the coal era.

The Welsh Development Agency for another: town planners and development officers throughout the principality are united in commending the commitment and understanding that the WDA brings to its role.

A third factor is the success the people of Wales have shown in adapting from traditional heavy industries to such sectors as financial services. Success breeds success; and since thousands of insurers and investment advisers have ousted the miners of south-east Wales, a continuing stream of high tech companies has been encouraged to pinpoint the area.

These factors have developed self-confidence at local level to the point where several towns have embarked on ambitious central area redevelopment schemes in defiance of the recession.

Newport, the first town encountered on driving into South Wales, is completely redeveloping its centre with the help of the WDA and government grant-aided refurbishment, particularly in the High Street, is beginning to give the town a buzz.

There have been disappointments: the town was hoping to renovate its bus station as part of a £100m 220,000 sq ft

commercial development by the Burton Property Trust; that is now on ice. But other ambitious projects - the 150-acre Celtic Lakes area for light industry close to both Imperial Park and Tredegar, and Langstone Park on the eastern edge of the town where Stakis has already opened a hotel - look promising.

Local agents report that commercial rents in Newport, while not rising, have held steady during the recession. Prime office space would command about £12 a sq ft, though the lack of recent lettings makes that figure a bit of a guess.

Industrial activity has held up better, with small units fetching £5, and those over 10,000 sq ft approaching £4.50. Agents Debenham Tewson & Chinnocks report the recent letting at £4.25 of a 25,000 sq ft newly-built unit on Queensway Meadows (a joint development by the WDA and Bailey Group) as a recent benchmark.

In the capital itself, the past year has been very quiet: the last significant office letting at £16.40 - was last autumn when the Company of Designers, an architectural practice, took space in Sun Alliance's Windsor Place. Just out of the centre prices fall to £11.50 and there is no avoiding a verdict of over-supply.

Yet agents have detected some stirrings in recent weeks, led by industrial units which fetch £5.75 at the small end, and £5 for large units. In the city core, all eyes are peeled for signs of activity at Imperial Gate, the planned development by Regallan Properties which has not got beyond site demolition.

Cardiff's tight retail heart may also be stirring. Recent encouragement has come with the opening of the Capital Centre at the top end of the High Street which has persuaded Jaeger to move from Queen Street, previously the unassailable spot for high fashion.

On the extreme eastern edge of the Bay area the proposed Pengam Green shopping centre has not yet attracted a developer, but the county is pushing ahead with its Capital

Waterside scheme to the south of County Hall, and Brain's mixed brewery, residential, retail, restaurant and studios complex, The Wharf, is letting well.

Swansea's town centre is even tighter than Cardiff which is proving no bad thing during the recession. Office rents have scarcely topped £8 and supply remains more than adequate. Yet the Enterprise Park within the Swansea Bay area is coming back to life of a sort with terms just agreed on a 110,000 sq ft industrial unit, albeit at below £2.50.

In the valleys industrial rents hover around the £3.50 mark which has not led private developers to muscle in on the WDA's patch. But retail schemes may prove more of a draw when some towns put their plans out to tender. Ceerphilly and Llanelli are conducting feasibility plans at present, while in west Wales, Mr Richard Branson is sitting on a site close to Tesco ready to pick his moment. Lampeter too has a proposed centre waiting to go.

For those companies in a position to make their property moves, the increase in supply and generally quiet commercial scene, is a gift. From the WDA to county economic development departments and firms of specialist advisers, everyone is ready to tailor a proposal to suit the incomer.

One such adviser is Integra, set up two years ago by Mr Wyn Price, a former WDA official, to assist companies wanting to move into west Wales. Since 1989 Mr Price has brought forward 213m of industrial property deals on 126,000 sq ft, mostly in small factory units. Current projects, for over another 45,000 sq ft are being negotiated at Ammanford, Dafen, Bridgend and Portadown.

Integra's deals rely heavily on grants, both from the UK government and the European Coal and Steel Community. But the number of companies seeking to take up the funds is an indication of the area's fundamental attractions.

Christine Moir

River barrage schemes and the environment

Three run gauntlet of objections

THREE DAYS development in South Wales is inextricably linked to the notion of river barrage schemes - a highly controversial form of environmental engineering. No fewer than three towns in the area are building or planning to build barrages as the cornerstones of urban regeneration projects, writes Christine Moir.

Controversy has dogged all three in proportion to their size and relation to the town's central core. Thus Cardiff, where the barrage has been publicly called the cornerstone of the Cardiff Bay redevelopment, has faced the most outspoken criticism, followed by Newport, where River Usk barrage plan will indelibly change an area running right through the core of the town.

By contrast, Swansea's River Tawe barrage, which is less central to the town and to its main development area, has successfully run the gauntlet of environmental objections and is already well advanced.

While the other two are still in the throes of the consultation process, conservation groups which had hoped to halt them seem likely to be disappointed. Cardiff's private barrage bill may have collapsed in Parliament in April, but Mr David Hunt, the Welsh Secretary, has just reaffirmed his intention to reintroduce it as a government bill in November. For its part Newport, which withdrew its bill earlier this year, has a fixed date - November 27 - for its reintroduction in amended form.

Supporters are daily regaining their optimism, particularly as amendments to the schemes are seen to be successful in addressing the most

pressing objections to the original plans. In Newport, for instance, the nub of the criticisms had been the question of safe passage up and down the Usk for migratory fish. Mr Roger Davies, manager of the River Usk Regeneration Project, is now confident that this issue has been resolved.

"We will create a variation of the revolutionary Borland fish pass, involving twin locks which fish will be able to use to move either from higher to lower levels or in reverse order," says Mr Davies. "In addition, on more than half of all tides fish will be able to swim over the barrage, across half the river's width."

In Cardiff, one of the main concerns has been aesthetic: objectors have feared that Cardiff Bay would simply be sealed off by an ugly concrete wall. On September 4, however, Mr Geoffrey Inkin, chairman of the Cardiff Bay Redevelopment Corporation, was able to unveil the final design form of the barrage showing that Sir Alexander Gibb and Partners, the engineers, have made public access and enjoyment of the area a top priority.

The barrage itself will be landscaped to form a park similar in style and size to the town's Sophia Gardens. A freshwater lake will be created with fishing piers and groynes, backed by walled gardens, picnic areas and lavish planting on the embankment itself.

Redesigned sluice gates will not only offer greater flood protection than the originals but involve less intrusive construction. They will also be used to flush out the lower parts of the bay, improving its water quality, and have a slightly larger

capacity to take into account any rise in sea levels which might be caused by the greenhouse effect.

Water quality has also been a concern at Newport but a report commissioned from Environmental Resources, independent consultants, suggests it may even be improved by the barrage.

Environmental Resources, which has been used by the European Commission, the Channel Tunnel contractors and on the Merseyside Sea Barrage, points out that the barrage across the Usk will reduce scouring of the banks upstream, making it more likely that otters will recolonise the area once it has been cleaned up and replanted.

That assessment forms part of the vital environmental statement which had been delayed by two years of unusually dry weather. That delay prompted the borough council to have the parliamentary bill withdrawn.

Since May, however, the statement has been circulated to members of the environmental consultative committee which includes the National Rivers Authority, Nature Conservancy Council and a range of fishing and conservation groups, including the Gwent Wildlife Trust.

By early September only the National Rivers Authority, one of the petitioners against the original bill, had given its views, but Mr Davies was confident that the consultation process would speed up now that the holiday season is past.

One of the key amendments to the original bill, which is expected to appease many of the environmental groups, is

the inclusion of an advisory committee on the management of the barrage which will be able to guarantee that it is used sensitively so as to create the least disturbance.

For its part, the local authority is all the more committed to the barrage project since receiving an economic report by the management consultants, Coopers & Lybrand Deloitte, which favours the barrage above a bridge or a limited renovation of the old dockside.

The consultants believe the £42.4m barrage scheme, which involves developing 365,000 sq ft of industrial space and 515,000 sq ft of offices together with 2,400 houses, plus leisure and retail facilities, is the best chance to repair a century of neglect and dereliction and create an area which would attract new investment and quality housing to an attractive environment.

In Cardiff the docklands development corporation is equally certain that the barrage is "absolutely central if we are to realise the full potential of the bay," as Mr Inkin said on unveiling the detailed design. He expects it to provide "many thousands of jobs".

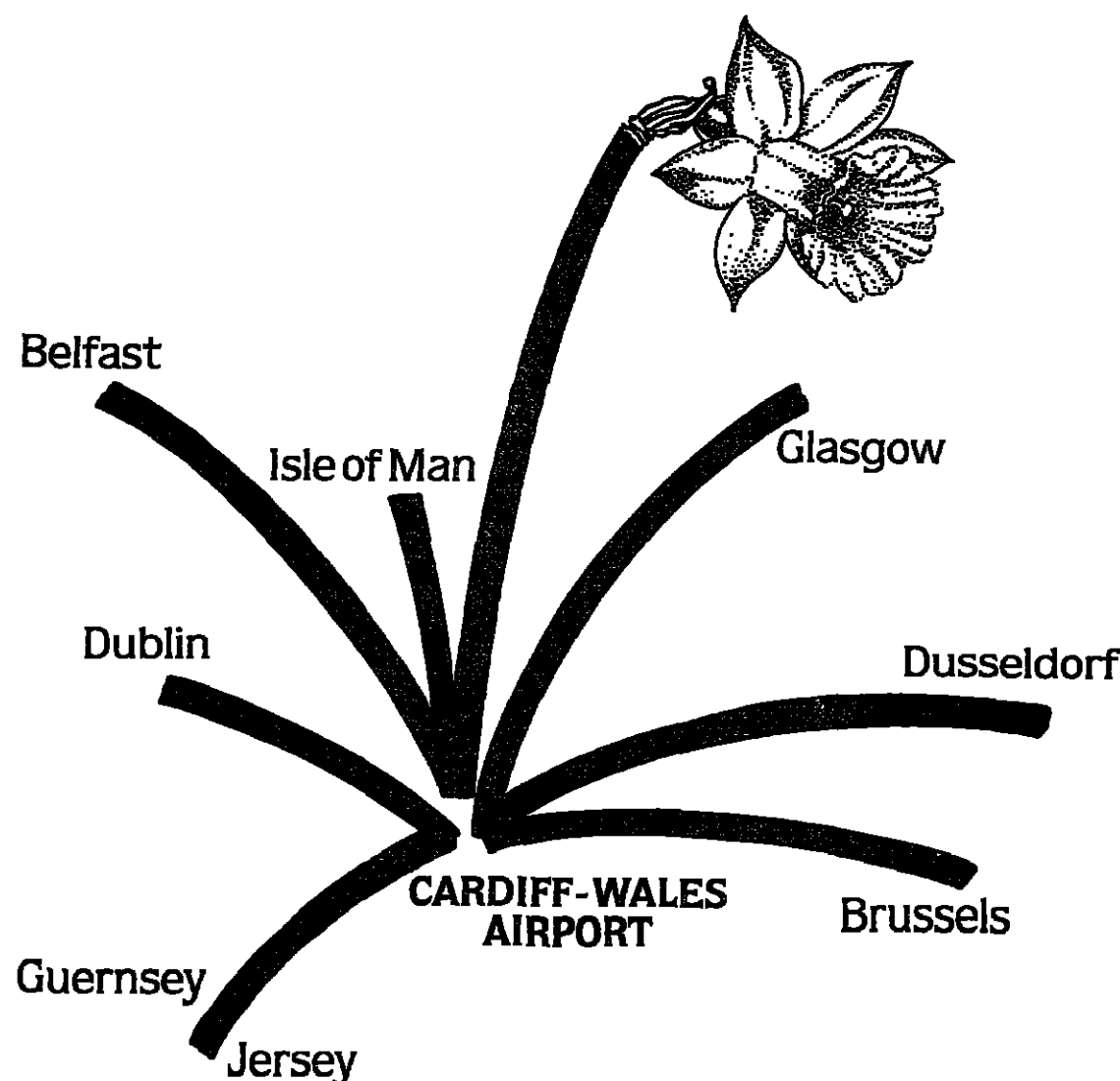
The Cardiff Bay barrage is an integral part of the city's most important development project. This is not true of Swansea's barrage scheme which is somewhat peripheral to the key development areas in the Swansea Bay Partnership. Although the barrage across the River Tawe will result in a clean-up of derelict riverside, create a maritime quarter and attract a £150m investment by Associated British Ports in the planned Port Tawe development, it has not

received nearly so much publicity as the Cardiff barrage.

Cynics suggest that this is why it is so much further advanced. Whatever the reason, the £13m construction contract was awarded nearly a year ago, and development is expected to be completed by 1994.

In all three cases, however, environmentalists have proved that their concerns cannot simply be ignored and their fears and objections will continue to be effective influences even after all three schemes have been - as seems likely - approved and built.

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WALES 8

TOURISM

Drive to attract the missing foreigners

WALES HAS not done as well from tourism as it might. The country has a rich and varied environment with national parks, areas of outstanding beauty and 300 miles of heritage coast. These make up a quarter of the total land area of the principality.

There are more castles per square mile in Wales than in any other country in Europe. Most stand in magnificent surroundings. These settings, together with standing stones, hermit caves, cathedrals and churches reflect the prehistoric, pre-Christian and Christian past of Wales.

Its ancient culture and distinct identity with its own language can be seen in pagans and festivals.

There are mountains, rivers and rugged coastline for activity holidays of all kinds - fishing, walking or climbing breaks.

Yet, despite all this, in relative terms, Wales does not seem to have built up a tourist industry comparable with other Celtic countries or areas with similar attractions, such as Scotland or Cornwall or Ireland, particularly when it comes to upmarket and international tourism.

In 1990 there were around 8.5m tourist trips. This probably means there were between 3m to 4m tourists, assuming an average stay of three or four nights. This was more than Cornwall which in the same year probably had fewer than 3m tourists. But Cornwall is much smaller and less accessible.

Moreover, of the total tourist "spend" of around £1.4m in 1990, day visitors accounted for £375m. Foreign visitors contributed only £117m. Comparatively speaking, this is a small proportion of what international tourism earned for Scotland.

A United Kingdom Tourism Survey (UKTS), sponsored jointly by the national tourist boards for England, Northern Ireland, Scotland and Wales, found in 1989 that Wales earned less than 2 per cent of the total foreign tourist spend in Britain and Northern Ireland.

Part of the reason why tourism lags behind is that, until quite recently, South Wales hardly needed to encourage visitors. It was an area of heavy industry: coal and steel.

True, the mountains of North Wales attracted walkers and climbers and the coastal resorts appealed to old-style bucket-and-spade holiday makers. Indeed, two-thirds of all holidays taken in Wales are on the coast. These are at bed-and-breakfast or budget hotels, or at self-catering properties or at the numerous caravan or camping parks.

The resort towns, with the arguable exception of Llandudno, do not really cater for conferences or upmarket short-break holidays.

The official attitude towards tourism has changed radically in the past few years as the realisation has sunk in that the industry is a growth area which can be a huge revenue earner for the country.

An international passenger survey recently estimated that the number of overseas visitors to the UK grew by 4 per cent between 1989 and 1990 to nearly 18m. Their spending went up 11 per cent to £7.7bn.

As the traditional industries have declined, Wales has discovered, as other parts of the UK have done, that it has assets which can be turned to good account.

The Wales Tourist Board is spending £1m over five years from 1989 in the South Wales valleys. The money will be spent on projects and environment improvements. The hope is that the money will lever out further investment from the private sector.

At the same time, the breweries have been improving their pubs and in some cases converting them to hotels. Hotel groups have also been building in the valleys, which were once neglected.

Using money available under Section 4 of the 1969 Tourism Act, the board is spending £1m each in three resorts: Llangollen, Rhyl/Prestatyn and Tenby. And £1m each will be allocated to three historic towns: Chepstow, Conwy and

Llandrindod Wells.

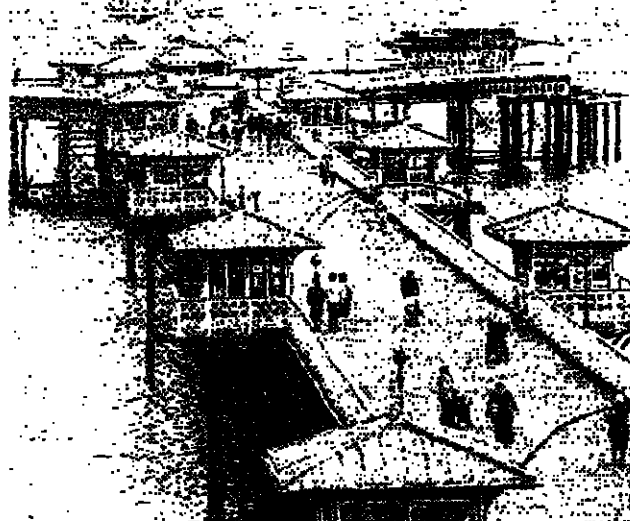
These come under the tourist board's local enterprise and development programme. Other initiatives include: £800,000 for country house hotels, up to £800,000 for coaching hotels, up to £900,000 for development of unique attractions of national or international significance and up to £500,000 for the development of activity centres of quality.

The board will spend more than £20m to assist potential developers of all-year holiday complexes in areas of high population catchment, according to Mr Norman Poole, a director. That is apart from the £3.5m annual budget used for promotion and administration.

In all areas, the hope is that the money will be closely co-ordinated with private sector finance and that a greater proportion of private capital will be levered out.

One area in which private investment is taking place is country house hotels. Welsh Water, the privatised utility, has bought five of these. Mr John Elfed Jones, the chairman of Welsh Water, is an avid fisherman, and a great Welsh patriot.

The idea is that these hotels will be developed as upmarket



The pier at Llandudno: short breaks if not upmarket

fishing and walking lodges, along the lines of the hotels in Scotland besides the salmon rivers. Apart from being a fisherman, Mr Jones has an interest in maintaining river quality.

Another area that seems ripe for development is first-class hotels with golf courses. At least three of these were under consideration not too long ago. One of these was foreseen as being the Glenegies of Wales.

But recession may have killed off one or more of these golf courses for the time being. Mr Poole feels it is a "bit unfair" to say that Wales has lost out to Scotland. "We do not have the same instantly recognisable products as Scotland like whisky for example." But he admits that more

should be done to attract foreign visitors.

Mr Jones goes further. He says that a lot more should be done to upgrade the tourist industry. "Nowhere here is on the international circuit except Chester and technically speaking that is in England. We should do more to promote ourselves, particularly in the US."

By the end of the century, Cardiff could have an opera house on the bay to rival any. Though its castle is not as majestic as Edinburgh's, it is well preserved but few people outside the principality know it is there.

Wales needs to get on the lucrative international circuit.

Stewart Dalby

EBBW VALE GARDEN FESTIVAL

How green is the valley once known for its coal

WHERE THE steelworks sprawled listlessly over a scene of dereliction on the edge of Ebbw Vale in south-east Wales, some 800,000 trees and shrubs have been planted. The transformation is already amazing: by the time the Ebbw Vale Garden Festival opens on May 1 next year the greening of the valley will be complete.

Mr Robert Webb, chief executive of the festival company, has been cautious in his estimates of the number of visitors - Ebbw Vale is, after all, in a relatively remote, rural area - but he will be disappointed if there are not at least 2m for the five months of the festival.

A working farm and mountain railway, a greenhouse displaying exotic blooms from Singapore, a wetlands development sponsored by British Coal which has stumped up £300,000 in recognition of its historical links with the town, and overall supervision by Dutch horticultural designers are all evidence of the planning which has been put in.

Efforts have also been made to pack the festival with attractions beyond the 95-acre garden site itself. In what Mr Webb calls a series of "festivals within the festival", the site will host an American festival, a Keep Fit event and a Schools festival. Wales's singing tradi-

tions will be maintained by way of an exchange of choirs with Baden-Württemberg.

However successful the festival itself though, what matters is what comes afterwards when the tents and pavilions have made way for the permanent housing and commercial dwellings which, it is hoped, will rejuvenate an area of nearly 200 acres and bring new economic prosperity to the town.

Backed by the Welsh Office and the Welsh Development Agency, and with the support of Gwent County Council and the surrounding local authorities, Ebbw Vale expects to marshal £20m of public money for the redevelopment project.

A similar sum is hoped for from the private sector by way of inward investment into the area and a residual £5m or so may come from selling assets left over from the festival.

For the moment, those two latter sums are just back-of-envelope guesses while a joint working party thrashes out the detailed after-use plan. But the prospects are promising, according to Mr Andy Fretter, assistant county planning officer for Gwent and a member of the working party.

Already, it is agreed that the bulk of the commercial part of the site should be redeveloped as a business park to attract a better class of business than has historically been associated with the valleys; more service industries including financial services. "Ebbw Vale is not going to attract TSB-type investment (as Newport on the M4 corridor has done)," says Mr Fretter. "But we know of others in the same sector looking for better-value-for-money premises, and one or two actively looking for valley locations."

Gwent is very active in the IT Wales initiative which has attracted international computer majors such as Atwa into the valleys. It will hope to build on that in Ebbw Vale.

"We also expect local industries to see it as a natural focus for expansion," says Mr Fretter. "Environmentally, it will be the most attractive site in South Wales with its mixture of landscaping, environmentally-sensitive housing, open

space and business park. I am confident that it will all be developed within five years."

There has been taken to match the enhancement of the immediate area with improved infrastructure and access to the town. Three months ago, the Welsh Office announced the upgrading of dual carriage-way of the final stretch of the seven miles between Abergavenny and Ebbw Vale. That will take several years to complete but the last of the bottlenecks in the route down the valley, particularly round Cwm, will be eliminated in the next three years.

Thus, while Ebbw Vale's rural charm is to be maintained, the town will become easily accessible for all sorts of those needing full-scale motorway facilities.

Yet questionmarks still hang over the future of the town once the festival tents have been folded. Ebbw Vale's will be the fifth - and last - garden festival in Britain. Modelled on a European concept, they have not taken quite so well on British soil and the results of the previous four have been mixed.

At Stoke, for instance, the heavily industrialised nature of the town did not lend itself to an outstanding garden display. Yet the increase in inward investment since the end of its festival has been encouraging. Liverpool's less successful outcome may have been due to its size: possibly it was too large a city to benefit from the boost that a garden festival can bring, although Glasgow's town planners claim that their festival had a measurable effect on inward investment.

Gateshead, with its industrial past and immediate access to open countryside, may be the most comparable of the previous four, although Ebbw Vale does not have a large neighbour - Newcastle - looming over it. And, since Gateshead's festival has been judged a success if not a runaway hit, Ebbw Vale must hope that the similarities outweigh the differences between the two.

Christine Mole

Object lesson in Cardiff

FIVE YEARS ago, Techniquet was just an idea in the mind of John Beeston, then professor of science education at Cardiff's university college. Today, it is the second largest visitor attraction in the Welsh capital, bowing the knee only to the city's castle, writes Anthony Moreton.

Techniquet is a hands-on centre full of objects designed to illustrate scientific matters. Just inside the front door is a Bernoulli Blower in which a beach ball appears to be suspended in mid-air. It looks like gravity being defied; but Bernoulli devised the process 200 years ago and there is no trick. Air is pumped out at an angle and the ball is caught in the slipstream.

"Try it with your vacuum cleaner attachment and a table-tennis ball," Professor Beeston says. "The principle is the same whatever the mechanics of the operation."

Techniquet is full of such exhibits. Its aim is to "educate by stealth through leisure activities," he says.

Mr Beeston simply bubbles with enthusiasm as he moves from object to object. The idea behind Techniquet is nothing new. Hands-on centres were born in North America in the late 1960s, with Exploratorium at San Francisco and the Ontario Science Centre in Toronto. They are, however, relatively new to the UK.

Prof Richard Gregory's Exploratory in Bristol was the first in the UK, closely followed by Techniquet. There are now getting on for a dozen, including one in the Science Museum in London.

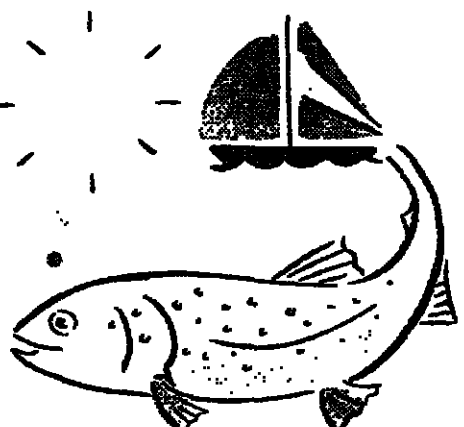
Techniquet is now attracting 114,000 visitors a year, many in school parties, and Prof Beeston has ambitious plans to move to larger premises. Others have responded to his enthusiasm, notably the Gatsby Charitable Foundation, David

Sainsbury's personal trust, which put in an initial £23,000 and followed with a further £260,000. ASW, the Cardiff steel company, Associated British Ports, the Nuffield Foundation, Marks and Spencer and Cardiff Bay Development Corporation have all put up money. Now Shell has come forward with a £250,000 grant to allow Prof Beeston's team to see if ways can be found to present chemistry in the science centre.

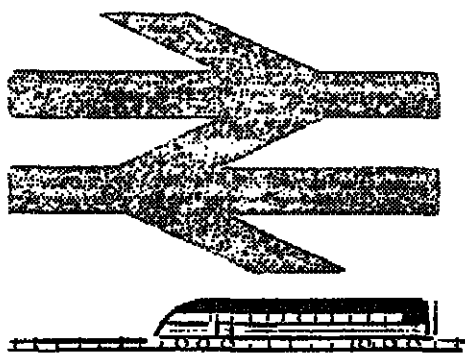
"The trouble with chemistry," he says, "is that it is smelly, often needs heat and can sometimes be dangerous. If we could find a way to make it adaptable to the hands-on treatment all our pieces of equipment go through, it would be an enormous breakthrough in the understanding of this branch of science."

You come away with the feeling that if anyone can achieve that breakthrough it will be John Beeston.

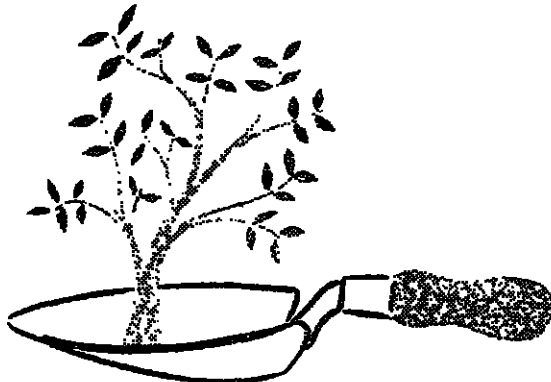
HOW CARDIFF BAY IS TURNING 150 YEARS OF HISTORY INTO A CITY'S FUTURE.



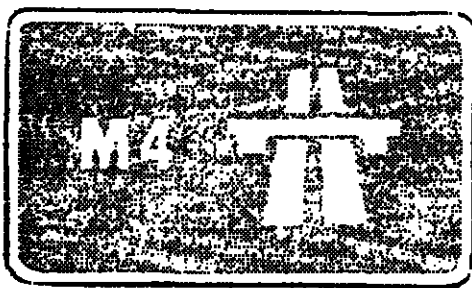
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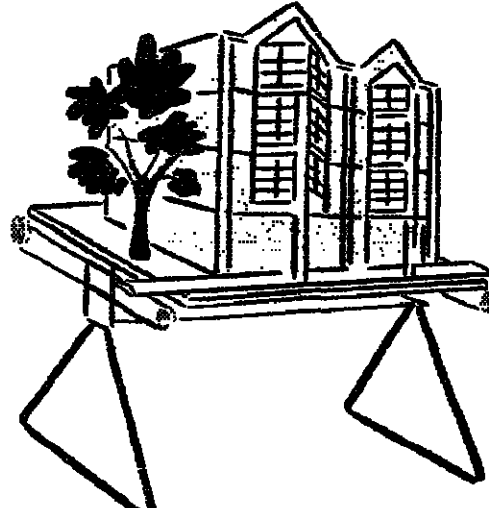
The Cardiff Bay Development Corporation is reserving as much space as possible for public parks, gardens and greens. Over £115 million has been allocated for environmental improvements and landscaping.



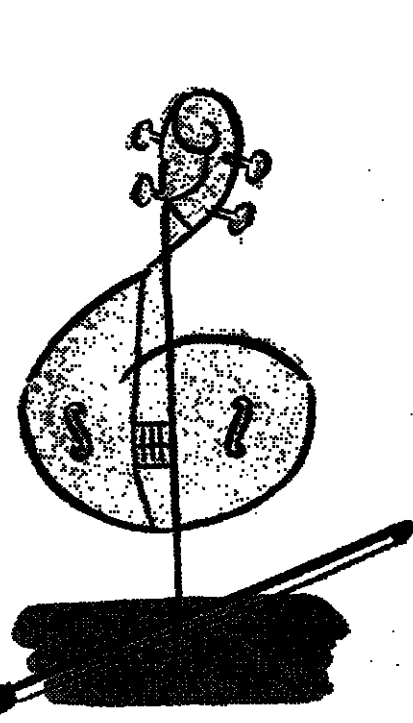
The M4 motorway connects Cardiff to London in just 2 1/2 hours. Soon Cardiff Bay will be served by a high capacity dual carriageway looping through the Bay. The result is Cardiff Bay will be just around the corner from the M4.



Cardiff is already a flourishing capital, the centre of Welsh industry, commerce, administration and recreation. It is a major British tourist centre with many fine hotels and conference facilities.

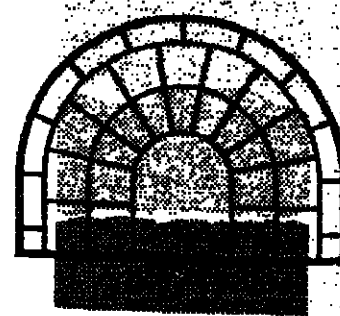


To set and achieve high architectural standards, the Cardiff Bay Development Corporation has consulted with the best international planning consultants.



Cardiff is world renowned as a cultural centre. The Cardiff Bay Development Corporation seeks to enhance the city's international reputation by encouraging the development of both a Science Centre and an Opera House.

CARDIFF



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